Wolter, Catherine

From: Rushenberg, Tim
Sent: Wednesday, June 18, 2008 9:33 AM
To: Wolter, Catherine
Subject: FW: Proposals Concerning 2011 Manual

Attachments: 1018943_1.DOC; 1019846_1.DOC; Guidelines Suggestions 2 25 2008.pdf


1018943_1.DOC
(165 KB)


1019846_1.DOC
(220 KB)


Guidelines
uggestions 2 25 20.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: Larry Stroble [mailto:larry.stroble@BTLaw.com]
Sent: Monday, February 25, 2008 4:22 PM
To: Musgrave, Cheryl
Cc: dsuess@boselaw.com; TAtherton@boselaw.com; Wood, Barry; Rushenberg, Tim; mcahoon@imaweb.com; BWaltz@indianachamber.com
Subject: Proposals Concerning 2011 Manual

Cheryl,

This is a follow up to a meeting that Mark Cahoon, Bill Waltz, Tom Atherton, David Suess, and I had with Barry Wood and Tim Rushenberg on February 14, 2008. Because of the limited amount of time before the DLGF needs to complete its draft of the 2011 assessment manual, we agreed that we would provide our comments in the form of specific suggestions. Attached is a write up that contains our suggestions. Also attached is a marked copy that highlights our proposed changes.

In addition, although we have not gone through the entire Guidelines page by page, we have identified certain selected parts where we have comments. Those are attached in a pdf document with handwritten suggestions.

As we discussed with Barry and Tim, the main objectives we had in mind were these:

1. Except for agricultural land, we recommend using the market value standard of value. Based on our discussions with several professional appraisers, the current "market value in use" standard is internally inconsistent and is very difficult, if not impossible, to apply in a manner that complies with generally recognized appraisal standards.

2. The valuation date and the assessment date should be synchronized. Leaving any gap between the two presents numerous difficulties for both assessors and taxpayers.

3. While agreeing that there should be an officially sanctioned cost manual, we recommend emphasizing that assessors are permitted and encouraged to use any of the three recognized approaches to value if they are helpful in determining market value. The test of the correctness of an assessment should be whether it equates to market value.

4. We think it would be useful to underscore the importance of sales ratio studies and equalization as tools that the DLGF will use to evaluate equity and uniformity in assessment results.

Our group would be glad to meet with you, Barry, and Tim again to explain our thoughts further or to discuss other aspects of the new manual. We appreciate your efforts in trying to improve our tax assessment system.

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Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011, assessment date.

IC 6-1.1-31-6(c) provides that "true tax value is the value determined under the rules of the department of local government finance." In the case of agricultural land, true tax value shall be the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. In the case of all other real property, true tax value shall mean market value, which is defined as follows:

> The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.[1]

The true tax value of property under this definition shall be determined as of the applicable assessment date.

Three standard approaches are used to determine market value. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization. Each of these approaches is appropriate for determining the true tax value of property under the definition provided in this manual. The approaches to determining market value and the reconciliation of such approaches shall be applied in accordance with generally recognized appraisal principles. Standard appraisal and valuation texts such as those published by the Appraisal Institute and the International Association of Assessing Officers, are acceptable sources for determining such principles. The estimate of market value shall be based on the property's highest and best use as determined by the application of such appraisal principles.

The Guidelines adopted by the Department of Local Government Finance provide procedures and schedules that are acceptable in determining true tax value under the cost approach. Assessing officials may also consider other relevant information in applying the cost approach and may also use either the sales comparison approach or the income approach, or both, in determining true tax value if they are applicable to the type of property being assessed and if relevant and reliable data is available to support the use of such approaches.

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[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, p. 177 (2002).

An assessment determined by an assessing official in accordance with this manual shall be presumed to be correct. Any evidence relevant to the true tax value of the property as of the assessment date may be presented to rebut the presumption of correctness of the assessment. Such evidence may include an appraisal prepared in accordance with generally recognized appraisal standards. However, there is no requirement that an appraisal be presented either to support or to rebut an assessment. Instead, the validity of the assessment shall be evaluated on the basis of all relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether, in light of the relevant evidence, it reflects the property's true tax value as defined in this manual.

The county assessor shall also utilize assessment studies, as provided in a separate rule, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. When deemed necessary to equalize assessments between or within townships or between classes of property, or when deemed necessary to raise or lower assessments within a county or any part thereof to the level prescribed by law, the county assessor shall apply a percentage increase or decrease to individual assessments to attain just and equal assessments.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Definitions

Definitions preceded by ■ are taken from the publication, **Glossary for Property Appraisal and Assessment**, copyright © 1997 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217. Definitions preceded by ▼ are those developed by the Department of Local Government Finance. Words in bold print in the definition refer to other words defined in this section.

Appraisal ■ (1) The act of estimating the money value of property. (2) The money value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services.

Appraisal Date ■ The date as of which a property's value is estimated. ▼ The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Appraisal Methods ■ The three methods of appraisal, that is, the **cost approach, income approach**, and **sales comparison approach** as defined in the Overview of Mass Appraisal Methods and Models section of this rule. ▼ Any method of estimating value

Arithmetic Mean ■ See **mean**.

Array ■ An ordered arrangement of data, such as a listing of sales ratios, in order of magnitude. ▼A ranking of data in order of value. May be either in ascending (lowest to highest) or descending (highest to lowest) order. Also referred to as a rank order.

Assess ■ To value property officially for the purpose of taxation.

Assessed Value ■ The dollar amount for a property entered into the assessment roll. ▼May differ from **true tax value** if a fractional assessment system exists. Beginning with the 2001 assessment year, the **assessed value** equals 100% of the **true tax value**.

Assessment ■ (1) In general, the official act of determining the amount of the tax base. (2) As applied to property taxes, the official act of discovering, listing, and appraising property, whether performed by an assessor, property tax assessment board of appeals or a court. (3) The value placed on property in the course of such act. See **assess**.

Assessment-Appraisal Ratio ■ The ratio of the **assessed value** of a property to an independent appraisal.

Assessment Date ▼March 1st of any year.

Assessment Equity	■ The degree to which assessments bear a consistent relationship to **market value**.
Assessment Level	■ The common or overall ratio of **assessed values** to **market values**.
Assessment Ratio Study	■ An investigation intended to determine the **assessment ratio** and **assessment equity**.
Assessment-Sale Price Ratio	■ The ratio of the assessed value to the **sale price** (or adjusted sale price) of a property.
Average	■ The arithmetic **mean**.
Central Tendency	■ (1) The tendency of most kinds of data to cluster around some typical or central value, such as the mean, median, or mode. (2) By extension, any or all such statistics.
Coefficient of Dispersion	■ The **average deviation** of a group of numbers from the on **median** expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.
Comparable Sales	■ Recently sold properties that are similar in important respects to a property being appraised; sometime referred to as "comparables".
Dispersion	■ The degree to which data are distributed either tightly or loosely around a measure of central tendency.
Equalization	■ The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is appraised at the same ratio or as required by law.
Fractional Assessment	■ Assessment at a fraction (percentage) of full value, or of such standard as may be fixed by law. Note: Fractional assessment may constitute underassessment, or it may be sanctioned by law. ▼ In Indiana, up to and including the 2000 assessment year, the statutes allowed for fractional assessments of 33-1/3% of **true tax value**. Beginning with the 2001 assessment year, fractional assessments no longer legally exist because the statute raises the assessment level to 100% of true tax value
Level of Assessment	■ See **assessment level** and **assessment ratio**.
Lien Date	■ The date on which an obligation, such as a property tax bill (usually in an amount yet to be determined), attaches to a property and the property becomes security against its payment.

Market Value	The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.
Mass Appraisal	■ The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing
Mean	■ A **measure of central tendency**. The result of adding all the values of a variable and dividing the number of values.
Measures of Central Tendency	■ A single point in a range of observations around which the observations tend to cluster. The three most commonly used **measures of central tendency** are the **mean, median**, and **mode**.
Median	■ A **measure of central tendency**. When the number of items is odd, the value of the middle item when the items are arrayed by size. When the number of items is even, the arithmetic average of the two central items when the items are similarly arranged. Thus, a positional average that is not affected by the size of extreme values.
Mode	■ The most frequently occurring observation in an array.
Model	■ (1) A representation of how something works. (2) For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and variables representing factors of supply and demand
Property Wealth	■ The abundance of economic utility realized from property rights.
Ratio Study	■ A study of the relationship between appraised or **assessed values and market values**. Indicators of market values may be either sales (**sales ratio study**) or independent "expert" appraisals (appraisal ratio study). Of common interest in ratio studies are the level uniformity of the **appraisal or assessments**.
Reassessment	■ The re-listing and reappraisal of all property in a jurisdiction or portion thereof. Also called reappraisal or revaluation.
Replacement Cost	■ The cost, including material, labor, and overhead, which would be incurred in constructing an improvement having the same utility to its owner as a subject improvement.
Reproduction Cost	■ The cost of constructing a new improvement, reasonably identical with the subject improvement, using the same materials, construction

standards, design, and quality of workmanship.

Sale Price ■ Amount paid for an item.

Sales Ratio Study ■ A **ratio study** that uses sales prices as a proxy for market values.

Single-Property Appraisal ■ Appraisal of properties one at a time. Contrasts with **Mass Appraisal.**

Statistics ■ (1) Numerical descriptions calculated from a sample. For example, the **median, mean**, or **coefficient of dispersion**. Statistics are used to estimate corresponding measures, termed parameters, for the population. (2) The science of studying numerical data systematically and of presenting the results usefully

Subject Property ■ The property being appraised.

Taxable Value ■ The appraised value minus all applicable exemptions, deductions, and abatements. Property taxes are levied on taxable value. ▼ In Indiana, the taxable value is referred to as net assessed value.

True Tax Value ■ In the case of agricultural land, the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. In the case of all other property, market value as defined in this manual.

Valuation Date ■ The date as of which a property's value is estimated. ▼The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Overview of Mass Appraisal Methods and Models

The purpose of this section of the rule is to give the assessing official an introduction to, and an overview of, mass appraisal methods and models. It is not the intent to be all-inclusive nor to be the definitive source of information on the topic. Those desiring more detail on the subject are referred to the International Association of Assessing Officers textbook, **Mass Appraisal of Real Property**; copyright © 1999 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217.

As defined by the International Association of Assessing Officers and in the Definitions section of this rule, mass appraisal is, "The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing." This definition can be compared to single-property appraisal, which is the process of valuing an individual property as of a given date. Although the two differ in the areas of data analysis and the degree of quality control required, they are similar in the steps applied to arrive at a final conclusion of value. Both are applied economic theory and have as a foundation various economic principles and theories.

Mass appraisal and single-property appraisal methods are based on what are known as the three approaches to value. These approaches are the cost approach, the sales comparison approach, and the income approach. They are three distinct ways of looking at property and estimating its value. The approaches to value offer three different alternatives a potential buyer has when deciding to make an offer on a property.

Cost Approach

The cost approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute parcel of vacant land and construct an equally desirable substitute improvement. In this approach, the appraiser calculates the cost new of the improvements, subtracts from it accrued depreciation to arrive at an estimate of the improvement's value, and then adds the value of the land as if vacant to arrive at an estimate of the subject property's total value. It can be expressed in a formula as follows:

$$(RCN - D) + LV = V$$

Where:
- RCN = Replacement/Reproduction Cost New of the Improvements
- D = Accrued Depreciation
- LV = Land Value, as if vacant
- V = Total Property Value

Sales Comparison Approach

The sales comparison approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute improved property already existing in the market place. In this approach, the appraiser locates sales of comparable improved properties and adjusts the selling prices to reflect the subject property's total value. The adjustments are the quantification of characteristics in properties that cause prices paid to vary. The appraiser considers and compares all possible

differences between the comparable properties and the subject property that could affect value. Objectively verifiable market evidence should be used to determine these items. Items, which are identified as having an influence on value in the market place, are then quantified by the use of their contributory values. These contributory values then become the adjustments which are added to, or subtracted from, the selling price of the comparable property.

The sales comparison approach can be expressed in a formula as follows:

$$SP \pm Adj = V$$

Where:	SP	= Sale Price of a Comparable Improved Property
	±	= Plus or minus
	Adj	= Adjustments
	V	= Total Property Value

Income Approach

The income approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute investment that offers the same return and risk as the subject property. It considers the subject property as an investment and, to that end; its value is based on the rent it will produce for the owner. It can be expressed in a formula as follows:

$$V = I \div R$$

Where:	V	= Value
	I	= Income
	R	= Rate

Using the Three Approaches

All three approaches to value are the basis for any single-property or mass appraisal "model" used by an appraiser. A "model" is defined by the International Association of Assessing Officers, and in the Definition section of this rule, as "A representation of. how something works; for purposes of appraisal, a representation (in words or an equation) that explains the relationship between value ... and variables representing factors of supply and demand." The appraisal model selected and used by the appraiser can be thought of as the formula that is mathematically processed to arrive at an estimate of value for a property. Therefore, the formulas given for the three approaches to value above could be referred to as "models".

These general models of the three approaches to value outlined above can be refined and expanded through a process referred to as model specification. Model specification is the designing of a model that is based upon appraisal theory and attempts to reflect the actions of buyers and sellers in the market. Specification of a model includes choosing variables to be included in the formula and mathematically defining their relationship to each other and the property's value.

For example, the specification of a simple model is expressed below:

$$(SF, X \$, /SF) + (SFL X \$L/SF) = V$$

Where:
- SF = Improvement area in square feet
- \$/SF = Unit price of the improvement per square foot
- SF_L = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

The model could be even further refined as follows:

$$NHF X [(SF, X \$,/SF) + (SF_L X \$L/SF)] = V$$

Where:
- NHF = Neighborhood Factor
- SF = Improvement area in square feet
- \$/SF = Unit price of the improvement per square foot
- $SF_{L/}$ = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

As can be seen from the above demonstration, models can become very sophisticated in their attempt to reflect market conditions.

There are a multitude of models that have been developed for the mass appraisal process by assessing officials, vendors, and academics. Any of these models may be capable of producing accurate and uniform values for a particular class of property within a specified geographic area. However, not all models can be used for every type of property or in every jurisdiction nor do they all offer ease in administration. The market dictates what type of models should be used and administrative constraints, such as knowledge of the user and budget concerns, dictate what models can be used.

Whatever mass appraisal method(s) and model(s) a county chooses, they must be capable of producing accurate and uniform values throughout the jurisdiction and across all classes of property. The standards of accuracy and validation the Department of Local Government Finance will use to judge alternative mass appraisal methods are stated in the section of this manual entitled "Approval of Mass Appraisal Methods."

Minimum Data Requirements

Any mass appraisal method selected by a county must have certain types of data available. These minimum data requirements are intended to allow taxpayers to understand the valuation process and provide the necessary information for the Department of Local Government Finance to perform its duties. These requirements are not intended to be restrictive but only to standardize the minimum data each county must have in its mass appraisal method. Any additional data a county wishes to collect is allowed under this rule.

Property Specific Characteristics:

- Parcel Number
- County
- Township
- Corporation
- Rectangular Survey Section #
- Subdivision/Plat Name
- Ownership information
- Street Address
- SBTC Property Class Code (See Appendix A)
- SBTC Taxing District #
- Neighborhood Code (residential only)
- SBTC Land Type Code (See Appendix B)
- Land dimensions
- Land Size
- Improvement(s) Sketch with labels
- Improvement Photograph (principal structure)
- Year of Construction for all improvements
- Condition Rating of all improvements
- Sales History with sales prices, annotated for any adjustments
- Assessment History from the last reassessment forward; broken down by land, improvement, and total

Comparative Data:

- Copies of all sales disclosure statements

Approval of Mass Appraisal Methods

The following steps shall be followed in approving a mass appraisal method:

1) Each county assessor shall become knowledgeable as to the various methods of mass appraisal available. All mass appraisal methods considered shall comply with the minimum data requirements outlined in this manual.

2) The county assessor shall then make a final determination as to which mass appraisal method he/she prefers to be used in the county after discussions with other assessing officials in the county.

3) The county assessor shall forward to the Department of Local Government Finance the mass appraisal method recommended by the county. The submission to the Department of Local Government Finance shall include enough detail on the method to allow it to be adequately reviewed.

4) The Department of Local Government Finance shall review the submission using the following criteria:

a) ability to accurately measure "True Tax Value" as defined in this manual;
b) ease of administration by local assessing officials;
c) ability to be understood by taxpayers;
d) adherence to appraisal principles;
e) statistical support;
f) ability to produce data to be used in county and state ratio studies;
g) compliance with the following statistical support guidelines:[2]
    1. statistical models must have a sound foundation in assessment, appraisal, and economic theory;
    2. the model must generally generate random error terms as opposed to non-random error terms;
    3. a general, unrestricted model that is simplified through analysis is better than an overly simple model that systematically adds variables to achieve better fit (i.e. overspecification). Generally, assessments must be based on the simpler of two models that produce equivalent results;
    4. the model must be tested on a random selection of parcels for accuracy and goodness of fit;
    5. the model must be able to incorporate rival models. That is, it must be able to explain the results, or lack thereof, for alternative models;
    6. the explanation of the model must include a full description of the steps used to create the model and intermediate results that were achieved;
    7. the explanation of the model must consider a variety of statistical measures as opposed to just the correlation coefficient (e.g. distribution of error terms, F statistic, sample size and error, etc.);

[2] Part of this text are from "A Guide to Econometrics", Peter Kennedy, 3`d Ed., 1996, pg. 77-78

5) The Department of Local Government Finance shall approve or deny the use of the method.

6) Upon approval by the Department of Local Government Finance, the local assessing officials shall note on township and county assessment records the date of approval of the mass appraisal method and shall include such notation on each property record card as required by IC 6-1.1-31-5.

7) If a county fails to select a mass appraisal method under this procedure, it shall be required to use the Guidelines adopted by the Department of Local Government Finance.

The easiest way for a county to satisfy these criteria is to import a mass appraisal method with an existing computer assisted mass appraisal (CAMA) system that is used in substantially the same form in another assessing jurisdiction. This will allow the Department of Local Government Finance to review the method's output from these other jurisdictions in making its determination as to the acceptability of the method.

Responsibilities of Assessing Officials in Reassessment

Department of Local Government Finance (DLGF) - In addition to the statutory duties assigned to it under various chapters of IC 6-1.1, the DLGF will be responsible for:

- Approving the mass appraisal methods selected by the counties of the state.
- Conducting reviews of mass appraisal methods to ensure compliance with applicable laws.
- Conducting assessment ratio studies to determine the accuracy and uniformity of locally determined assessments.
- Reviewing assessment ratio studies and equalization conducted by county assessors.

Property Tax Assessment Board of Appeals (PTABOA) - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the county PTABOA's will be responsible for:

- Reviewing land value base rates set by township and county assessors prior to these rates being used to assess.
- Conducting public hearings on land value base rates set by township and county assessors prior to these rates being used to assess real property.
- Adjusting land value base rates, where necessary, in conjunction with counties contiguous to their counties to ensure cross-county uniformity.

County Assessor - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the county assessors will be responsible for:

- Reviewing mass appraisal methods for their applicability to the assessment of property within their respective counties.
- Conducting discussions with township and trustee assessors to select a mass appraisal method to be used within their respective counties.

- Directing the township and trustee assessors in the uniform valuation of land within their respective counties.
- Submitting to the DLGF the mass appraisal method selected by assessing officials within their respective counties.
- Conducting assessment ratio studies to determine the accuracy and uniformity of assessments within the county.
- Equalizing assessments countywide and, where not performed by a township assessor, within townships.

Township and Trustee Assessor - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the township and trustee assessors are responsible for:

- Determining land value base rates.
- Using the mass appraisal method selected by the county assessing officials and approved by the DLGF.
- Conducting assessment ratio studies to determine the accuracy and uniformity of assessments within their respective township.
- Equalizing assessments within the township.

Assessment Ratio Studies and Equalization

The accuracy and uniformity of the assessments produced by any mass appraisal method shall be measured by an assessment ratio study. Should the results of the study show the assessments to be inaccurate and/or non-uniform, equalization shall be the remedy.

Assessment Ratio Studies

A ratio study is a measure of the performance of a mass appraisal method. It compares the assessing official's estimate of value with objectively verifiable data. The objectively verifiable data used in the comparison comes from selling prices and single-property appraisals prepared independent of the assessment process. Sales based ratio studies are preferred because they are less expensive and are more objective than independent single property appraisals.

The ratios used in assessment ratio studies are computed on individual properties by dividing the assessing official's estimate of assessed value, for the property by the sale price, or by an appraised value developed by single-property appraisal methods. If sale price was used, the ratio would be known as the assessment-sale price ratio. If appraised value was used, the ratio would be known as the assessment-appraisal ratio. The formula for an assessment-sale price ratio follows:

	A/S = (AV) ÷ SP
Where:	A/S = Assessment-sale Price Ratio AV = Assessed Value SP = Sale Price
*This variable is excluded for non-owner occupied property	

For example, assume a property sold for $104,000 and was assessed for $79,000Applying the above formula would yield the following:

$$A/S = (\$79,000) \div \$104,000$$

$$A/S = 0.7596 \text{ Rounded to } 0.76$$

In this example, the assessment-sale price ratio would be 0.76, which is the equivalent of seventy-six percent (76%). In other words, this property is assessed at seventy-six (76%) of the value it should be assessed. Ideally, all assessment ratios should be at one hundred percent (100%) in order to be considered accurate.

The ratio study uses assessment ratios as the basic data to measure the performance of a mass appraisal method. It statistically measures the accuracy and uniformity of the assessments produced by the mass appraisal method. Accuracy is measured through the application of statistics by measures of central tendency. Uniformity is measured through the application of statistics by measures of relative dispersion.

The statistical measure of central tendency most often used in assessment ratio studies is the median. The statistical measure of relative dispersion most often used is the coefficient of dispersion about the median. Both of these measures are defined in the definitions section of this rule.

The median assessment ratio reveals the "average" level at which property is assessed. If, for example, the median assessment ratio for single-family homes in a particular neighborhood is 0.86 (86%) the conclusion can be drawn that, on the average, all homes are assessed at 86% of their value. If the assessment level is supposed to be 100% for this neighborhood, then the ratio study has shown that single-family homes are underassessed and, therefore, not accurately assessed. Ideally, the median should be at 1.00 (100%). This means all properties are, on the average, accurately assessed. But since mass appraisal methods produce only estimates of value and are not an exact science, the actual median assessment ratio may vary from the ideal.

The coefficient of dispersion reveals the "average" difference between individual assessment ratios and the median assessment ratio. It demonstrates the typical amount of deviation the individual assessment ratios have from the median. If, for example, the coefficient of dispersion about the median ratio for single-family homes in a particular neighborhood is 0.18 (18%) the conclusion can be drawn that the individual assessment ratios deviate, on the average, plus or minus 18% from the median assessment ratio. Ideally, the coefficient of dispersion should be at 0 (0%). This means all properties are assessed at the level shown by the median and, therefore, no deviation is present. But, like the median assessment ratio, the actual coefficient of dispersion may vary from the ideal.

Equalization

Standards for evaluating the accuracy and uniformity of mass appraisal methods have been developed by the assessing community. These standards state the overall level of assessment, as determined by the median assessment ratio, should be within ten percent (10%) of the legal level. In Indiana, this means the median assessment ratio within a jurisdiction should fall between 0.90 (90%) and 1.10 (110%) in order to be considered accurate. This standard of ten percent (10%) on either side of the value provides a reasonable and constructive range for measuring mass appraisal methods.

These standards also state the coefficient of dispersion about the median should be at 0.15 (15%) or less for single-family residences and 0.20 (20%) or less for other classes of property. If the coefficient of dispersion is at, or below, these standards, then the mass appraisal method has produced uniform assessments. However, if the coefficient of dispersion is above these standards, then the mass appraisal method has produced non-uniform assessments.

Whenever inaccurate and/or non-uniform assessments are present, the county assessor and the Department of Local Government Finance are required to equalize assessments. Equalization of assessments is the process of ensuring all property is, on the average, accurately and uniformly assessed. The equalization process can be accomplished in two ways; through the application of factors to correct the accuracy and through reassessment to correct non-uniformity.

The following decision chart shows when each of the equalization procedures are appropriate:

Median Assessment Ratio	Coefficient of Dispersion	Action Required
Accurate (0.90 to 1.10)	Uniform (=< 0.15)	Nothing
Accurate (0.90 to 1.10)	Non-uniform	Reassess
Inaccurate	Uniform (-< 0.15)	Apply Factors
Inaccurate	Non-uniform	Reassess

More details on assessment ratio studies and equalization will be found in the equalization rule, 50 IAC 14.

Introduction

A general reassessment of all real property within the state is required as of March 1, ~~2002. The next general reassessment is statutorily required for March 1, 2006.~~ 2011. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, ~~2002, through March 1, 2005, assessment dates. It includes a number of changes from prior reassessment manuals issued by the State Board of Tax Commissioners.~~ 2011, assessment date.

~~The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:~~

> ~~a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.~~[1]

~~IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the State Board of Tax Commissioners." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the State Board of Tax Commissioners to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.~~

~~True tax value, therefore, is defined as:~~

> ~~The market value in use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property~~

~~It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides general rules for assessing property, situations may arise that are not explained or that result in assessments that may be inconsistent with this definition. In those cases the assessor shall be expected to adjust the assessment to comply with this definition and may ask the State Board to consider additional factors, pursuant to IC 61.1-31-5, to accomplish this adjustment.~~

~~True tax value may be thought of as the ask price of property by its owner, because this value more clearly represents the utility obtained from the property, and the ask price represents how much utility must be replaced to induce the owner to abandon the property. In markets in which sales are not representative of utilities, either because the utility derived is higher than indicated sale prices, or in markets where owners are motivated by non-market factors such as the maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange. In markets where there are regular exchanges, so~~

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[1] ~~*State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034, 1040 (Ind. 1998).~~

~~that ask and offer prices converge, true tax value will equal value in exchange, except for owner occupied housing units, where true tax value will be equal to the value in exchange.~~

~~To satisfy the requirements imposed by the courts and the legislature, True Tax Value uses fair market value data of property wealth, but derives values that are not based strictly on fair market value. Instead, True Tax Value gives recognition to two principles of the theory of wealth and value that fair market value does not adequately capture: (1) the concept of value-in-use; and (2) the recognition that "wealth" at its core is not an absolute, but rather to some degree, a comparative term.~~

~~Based on the decisions provided by recent court rulings, the basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under a value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:~~

~~*Use Value: The value a specific property has for a specific use.*~~[2]

IC 6-1.1-31-6(c) provides that "true tax value is the value determined under the rules of the department of local government finance." In the case of agricultural land, true tax value shall be the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. In the case of all other real property, true tax value shall mean market value, which is defined as follows:

> The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.[1]

The true tax value of property under this definition shall be determined as of the applicable assessment date.

~~Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property~~Three standard approaches are used to determine market value. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is

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~~[2] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383. (1993)~~

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, p. 177 (2002).

expected to produce into value through a mathematical process known as capitalization. Each of these approaches is appropriate for determining the true tax value of property under the definition provided in this manual. The approaches to determining market value and the reconciliation of such approaches shall be applied in accordance with generally recognized appraisal principles. Standard appraisal and valuation texts such as those published by the Appraisal Institute and the International Association of Assessing Officers, are acceptable sources for determining such principles. The estimate of market value shall be based on the property's highest and best use as determined by the application of such appraisal principles.

~~All three of these approaches, when properly processed, should produce approximately the same estimate of value. Fee appraisers use all three approaches when appraising individual properties. However, assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment and often times do not have the data or time to apply all three approaches to each property. Therefore, the cost approach has historically been used in mass appraisal by assessing officials since data is available to apply it to all properties within a jurisdiction. The cost approach also lends itself to mass appraisal because it is easily adapted to computer systems.~~

~~Replacement cost is preferred as opposed to reproduction cost because replacement cost estimates the cost of a physical structure with similar utility. This estimate of cost should be closely aligned with value-in-use.~~

~~Property wealth estimated by value-in-use often approximates value-in-exchange in instances where property types are frequently exchanged and used by both buyer and seller for the same purpose. A good example of this outcome is a small neighborhood retail center that is well occupied and maintained. Property wealth under value-in-use will be different from value-inexchange. One instance is for special-purpose industrial properties where value-in-exchange occurs only infrequently and under special circumstances.~~

~~Special-purpose properties often have very different property wealth estimates under a value-in-use scenario as opposed to value-in-exchange due to the motivations of the parties involved. This difference can be expressed as the difference between the bid and ask price for a special-purpose asset. The bid price is what a buyer is willing to pay to purchase an asset, the ask price is what the seller is willing to take in exchange for an asset. Typically, the bid price will initially be lower than the ask price, some negotiation will occur, and when the two are equal an exchange will take place.~~

~~In assessment, we are estimating how this negotiation will be resolved as of January 1, 1999. For property types that are frequently traded, the bid and ask price are likely to be fairly similar. For properties that are infrequently exchanged, or that are only exchanged under extraordinary circumstances, this difference between the bid and ask price is likely to be wider and more difficult to reconcile.~~

~~A seller of a special-purpose industrial property would accept nothing less than a price equal to the utility being gained from the property. For properties currently in use, this amount would be termed the value-in-use (i.e. the ask price). A buyer of a special-purpose property would initially bid no more than necessary to motivate the seller. A buyer would likely start with a low bid such~~

~~as the liquidation value of the property. Assuming that the buyer intends to use the property for its current use, the buyer will likely adjust the bid price until a transaction is completed. Since the seller has no motivation to sell at anything less than the value in use for a special purpose property, the ask price becomes the benchmark for a likely transaction under a value-in-use scenario. In the case in which the seller adjusts its opening price and actually consummates a transaction with the buyer at an agreed price, the bid and ask prices coincide and reflect the value in use of the property.~~

~~As noted previously, some types of fair market value data or valuation methods may be used to calculate True Tax Values, but these data and methods may be used only as described in these rules. In general, such methods will be applicable only if they rely on data that was readily available to the assessor at the time the assessment was made and they represent a reliable indicator of value based on the value-in-use premise or except as the Board may provide in its equalization rule. Fee appraisals of the subject property, or comparable sales approaches, that estimate the market value of improvements may be considered in determining true tax value if they are based on the value-in-use standard and utilize market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts. Single-use or specialty property for this purpose means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. When others could feasibly use the property for the same general commercial or industrial purpose, e.g. light manufacturing, general retail, or other use type defined in this manual, comparable sales data may be employed to determine true tax value if the data is reliable, the sampled property sales are reasonably comparable based on accepted appraisal standards, and the data was reasonably available to the assessor at the time the assessment was made.~~

~~For the purposes of this provision, "readily available" means information reasonably imputed to be information that the assessor should know is relative to the assessment, that the assessor is aware exists, and could have been accessed with reasonable ease or that the assessor could have availed himself/herself of with reasonable ease. Likewise, any information held, possessed or controlled by a taxpayer that is not furnished to the assessor prior to the assessment date, or otherwise made available and known to the assessor, cannot be considered readily available to the assessor. Information in the hands of a taxpayer is "readily available" to the assessor, however, if the taxpayer offers to make the information available to the assessor and describes the, general grounds for its relevance to the assessment before the assessment date, even if the information itself is not provided to the assessor. If the underlying data are disclosed prior to the assessment date, they may then be used to develop appraisal reports or other opinions of value. For example, if a taxpayer discloses the existence of a plant bottleneck to the assessor prior to the assessment date and indicates that the taxpayer's records may support the application of functional obsolescence to recognize the effect such bottleneck may have on value, the taxpayer would have satisfied the "readily available" standard even if the taxpayer waited until after the assessment date to have a full appraisal prepared considering this effect.~~

~~This methodology meets the court's recent ruling that each taxpayer does not have the right to "absolute and precise exactitude as to the uniformity and equality of each individual assessment... nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax appeals[3]. The analysis relies in part on neighborhood and industry-wide data in adjusting for depreciation and in doing so incorporates objective and verifiable data. Appeal of assessments must operate within the rules and utilize data in the same manner as provided in this manual. In general, this requires that challenges to assessments be proven with aggregate data, rather than individual evidence of property wealth. Since assessments are calculated using aggregate data, it is not permissible to use individual data without first establishing its comparability or lack thereof to the aggregate data. By requiring taxpayers to make any internal data "readily available" assessors are given the opportunity to establish this comparability.~~

~~There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual and was readily available to the assessor at the time the assessment was made. Such evidence may include actual construction costs, sales information regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles.~~

~~Further definitions that help to explain the concepts explained in this introduction include value and property wealth:~~

~~Value: Use value, the value a specific property has for a specific use.~~

~~Property Wealth: The abundance of economic utility realized from property rights.~~

The Guidelines adopted by the Department of Local Government Finance provide procedures and schedules that are acceptable in determining true tax value under the cost approach. Assessing officials may also consider other relevant information in applying the cost approach and may also use either the sales comparison approach or the income approach, or both, in determining true tax value if they are applicable to the type of property being assessed and if relevant and reliable data is available to support the use of such approaches.

An assessment determined by an assessing official in accordance with this manual shall be presumed to be correct. Any evidence relevant to the true tax value of the property as of the assessment date may be presented to rebut the presumption of correctness of the assessment. Such evidence may include an appraisal prepared in accordance with generally recognized appraisal standards. However, there is no requirement that an appraisal be presented either to support or to rebut an assessment. Instead, the validity of the assessment shall be evaluated on the basis of all relevant evidence presented. Whether an assessment is correct shall be

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~~[3] *State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034 (Ind. 1998).~~

determined on the basis of whether, in light of the relevant evidence, it reflects the property's true tax value as defined in this manual.

~~Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value.~~ The county assessor shall also utilize assessment studies, as provided in a separate rule, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. ~~If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards~~ When deemed necessary to equalize assessments between or within townships or between classes of property, or when deemed necessary to raise or lower assessments within a county or any part thereof to the level prescribed by law, the county assessor shall apply a percentage increase or decrease to individual assessments to attain just and equal assessments.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

~~Concept~~

~~The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method to arrive at that value. The important considerations in choosing a mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.~~

Definitions

Definitions preceded by ■ are taken from the publication, **Glossary for Property Appraisal and Assessment**, copyright © 1997 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217. Definitions preceded by ▼ are those developed by the ~~State Board of Tax Commissioners~~Department of Local Government Finance. Words in bold print in the definition refer to other words defined in this section.

Appraisal ■ (1) The act of estimating the money value of property. (2) The money value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services.

Appraisal Date ■ The date as of which a property's value is estimated. ▼ The date as of which the **true tax value** of the property is estimated. In the case of the ~~2002~~2011 general reassessment, this would be ~~January~~March 1, ~~1999.~~2011.

Appraisal Methods ■ The three methods of appraisal, that is, the **cost approach, income approach**, and **sales comparison approach** as defined in the Overview of Mass Appraisal Methods and Models section of this rule. ▼ Any method of estimating value

Arithmetic Mean ■ See **mean**.

Array ■ An ordered arrangement of data, such as a listing of sales ratios, in order of magnitude. ▼A ranking of data in order of value. May be either in ascending (lowest to highest) or descending (highest to lowest) order. Also referred to as a rank order.

Assess ■ To value property officially for the purpose of taxation.

Assessed Value ■ The dollar amount for a property entered into the assessment roll. ▼May differ from **true tax value** if a fractional assessment system exists. Beginning with the 2001 assessment year, the **assessed value** ~~will equal~~equals 100% of the **true tax value**.

Assessment ■ (1) In general, the official act of determining the amount of the tax base. (2) As applied to property taxes, the official act of discovering, listing, and appraising property, whether performed by an assessor, property tax assessment board of appeals or a court. (3) The value placed on property in the course of such act. See **assess**.

Assessment-Appraisal Ratio ■ The ratio of the **assessed value** of a property to an independent appraisal.

Assessment Date	▼March 1st of any year.
Assessment Equity	■ The degree to which assessments bear a consistent relationship to **market value**.
Assessment Level	■ The common or overall ratio of **assessed values** to **market values**.
Assessment Ratio Study	■ An investigation intended to determine the **assessment ratio** and **assessment equity**.
Assessment-Sale Price Ratio	■ The ratio of the assessed value to the **sale price** (or adjusted sale price) of a property.
Average	■ The arithmetic **mean**.
Central Tendency	■ (1) The tendency of most kinds of data to cluster around some typical or central value, such as the mean, median, or mode. (2) By extension, any or all such statistics.
Coefficient of Dispersion	■ The **average deviation** of a group of numbers from the on **median** expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.
Comparable Sales	■ Recently sold properties that are similar in important respects to a property being appraised; sometime referred to as "comparables".
Dispersion	■ The degree to which data are distributed either tightly or loosely around a measure of central tendency.
Equalization	■ The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is appraised at the same ratio or as required by law.
Fractional Assessment	■ Assessment at a fraction (percentage) of full value, or of such standard as may be fixed by law. Note: Fractional assessment may constitute underassessment, or it may be sanctioned by law. ▼ In Indiana, up to and including the 2000 assessment year, the statutes allowed for fractional assessments of 33-1/3% of **true tax value**. Beginning with the 2001 assessment year, fractional assessments no longer legally exist because the statute raises the assessment level to 100% of true tax value
Level of Assessment	■ See **assessment level** and **assessment ratio**.
Lien Date	■ The date on which an obligation, such as a property tax bill (usually in an amount yet to be determined), attaches to a property and the property

becomes security against its payment.

Market Value

■ The most probable price ~~(in terms of money) which a property should bring~~, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive ~~and open~~ market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently ~~and~~, knowledgeably, and for self-interest, and assuming ~~the price is not affected by~~that neither is under undue ~~stimulus~~duress. ~~Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby~~

~~• The buyer and seller are typically motivated;~~
~~• Both parties are well informed or advised and act in what they consider their best interests;~~
~~• A reasonable time is allowed for exposure in the open market;~~
~~• Payment is made in terms of cash or in terms of financial arrangements comparable thereto;~~
~~• The price is unaffected by special financing or concessions.~~

~~**Market Value-in-Use**~~ ~~See **value-in-use**. Synonymous with **Use Value**.~~

Mass Appraisal

■ The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing

Mean

■ A **measure of central tendency**. The result of adding all the values of a variable and dividing the number of values.

Measures of Central Tendency

■ A single point in a range of observations around which the observations tend to cluster. The three most commonly used **measures of central tendency** are the **mean, median**, and **mode**.

Median

■ A **measure of central tendency**. When the number of items is odd, the value of the middle item when the items are arrayed by size. When the number of items is even, the arithmetic average of the two central items when the items are similarly arranged. Thus, a positional average that is not affected by the size of extreme values.

Mode

■ The most frequently occurring observation in an array.

Model

■ (1) A representation of how something works. (2) For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and variables

representing factors of supply and demand

Property Wealth ■ The~~.~~ abundance of economic utility realized from property rights.~~A relative concept that reflects the difference between the property owned by the taxpayer and the minimum amount necessary to sustain life~~

Ratio Study ■ A study of the relationship between appraised or **assessed values and market values**. Indicators of market values may be either sales (**sales ratio study**) or independent "expert" appraisals (appraisal ratio study). Of common interest in ratio studies are the level uniformity of the **appraisal or assessments**.

Reassessment ■ The re-listing and reappraisal of all property in a jurisdiction or portion thereof. Also called reappraisal or revaluation.

Replacement Cost ■ The cost, including material, labor, and overhead, which would be incurred in constructing an improvement having the same utility to its owner as a subject improvement.

Reproduction Cost ■ The cost of constructing a new improvement, reasonably identical with the subject improvement, using the same materials, construction standards, design, and quality of workmanship.

Sale Price ■ Amount paid for an item.

Sales Ratio Study ■ A **ratio study** that uses sales prices as a proxy for market values.

Single-Property Appraisal ■ Appraisal of properties one at a time. Contrasts with **Mass Appraisal**.

Statistics ■ (1) Numerical descriptions calculated from a sample. For example, the **median, mean**, or **coefficient of dispersion**. Statistics are used to estimate corresponding measures, termed parameters, for the population. (2) The science of studying numerical data systematically and of presenting the results usefully

Subject Property ■ The property being appraised.

Taxable Value ■ The appraised value minus all applicable exemptions, deductions, and abatements. Property taxes are levied on taxable value. ▼ In Indiana, the taxable value is referred to as net assessed value.

True Tax Value ■ ~~The market value in use of a property for its current use,~~In the case of agricultural land, the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. In the case of all other property, market value as ~~reflected by the utility received by the owner or a similar user, from the property~~defined in this manual.

~~**Use Value**~~	~~■ See **Value-in-Use**, synonymous with **Market Value-in-Use**.~~
Valuation Date	■ The date as of which a property's value is estimated. ▼The date as of which the **true tax value** of the property is estimated. In the case of the ~~2002~~2011 general reassessment, this would be ~~January~~March 1, ~~1999.~~2011.
~~**Value-in-Use**~~	~~■ The value of property for a specified use. The concept that holds value to be inherent in property itself; that is, the value is based on the ability of the asset to produce revenue or utility through ownership. ▼The value a specific property has for a specific use. Synonymous with **Use Value** and **Market Value-in-Use**.~~
~~**Wealth**~~	~~See **Property Wealth.**~~

Overview of Mass Appraisal Methods and Models

The purpose of this section of the rule is to give the assessing official an introduction to, and an overview of, mass appraisal methods and models. It is not the intent to be all-inclusive nor to be the definitive source of information on the topic. Those desiring more detail on the subject are referred to the International Association of Assessing Officers textbook, **Mass Appraisal of Real Property**; copyright © 1999 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217.

As defined by the International Association of Assessing Officers and in the Definitions section of this rule, mass appraisal is, "The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing." This definition can be compared to single-property appraisal, which is the process of valuing an individual property as of a given date. Although the two differ in the areas of data analysis and the degree of quality control required, they are similar in the steps applied to arrive at a final conclusion of value. Both are applied economic theory and have as a foundation various economic principles and theories.

Mass appraisal and single-property appraisal methods are based on what are known as the three approaches to value. These approaches are the cost approach, the sales comparison approach, and the income approach. They are three distinct ways of looking at property and estimating its value. The approaches to value offer three different alternatives a potential buyer has when deciding to make an offer on a property.

Cost Approach

The cost approach to value is based on the assumption that potential buyers will pay no more for the subject property~~, hence they set the subject's value,~~ than it would cost them to purchase an equally desirable substitute parcel of vacant land and construct an equally desirable substitute improvement. In this approach, the appraiser calculates the cost new of the improvements, subtracts from it accrued depreciation to arrive at an estimate of the improvement's value, and then adds the value of the land as if vacant to arrive at an estimate of the subject property's total value. It can be expressed in a formula as follows:

$$(RCN - D) + LV = V$$

Where:
- RCN = Replacement/Reproduction Cost New of the Improvements
- D = Accrued Depreciation
- LV = Land Value, as if vacant
- V = Total Property Value

Sales Comparison Approach

The sales comparison approach to value is based on the assumption that potential buyers will pay no more for the subject property~~, hence they set the subject's value,~~ than it would cost them to purchase an equally desirable substitute improved property already existing in the market place. In this approach, the appraiser locates sales of comparable improved properties and adjusts the selling prices to reflect the subject property's total value. The adjustments are the quantification of characteristics in properties that cause prices paid to vary. The appraiser considers and

compares all possible differences between the comparable properties and the subject property that could affect value. Objectively verifiable market evidence should be used to determine these items. Items, which are identified as having an influence on value in the market place, are then quantified by the use of their contributory values. These contributory values then become the adjustments which are added to, or subtracted from, the selling price of the comparable property.

The sales comparison approach can be expressed in a formula as follows:

$$SP \pm Adj = V$$

Where:
- SP = Sale Price of a Comparable Improved Property
- ± = Plus or minus
- Adj = Adjustments
- V = Total Property Value

Income Approach

The income approach to value is based on the assumption that potential buyers will pay no more for the subject property~~, hence they set the subject's value,~~ than it would cost them to purchase an equally desirable substitute investment that offers the same return and risk as the subject property. It considers the subject property as an investment and, to that end; its value is based on the rent it will produce for the owner. It can be expressed in a formula as follows:

~~IV + LV = V~~

$$V = I \div R$$

Where:
- ~~IV = Improvement Value~~
- ~~LV = Land Value~~
- V = ~~Total Property~~ Value
- I = Income
- R = Rate

Using the Three Approaches

All three approaches to value are the basis for any single-property or mass appraisal "model" used by an appraiser. A "model" is defined by the International Association of Assessing Officers, and in the Definition section of this rule, as "A representation of. how something works; for purposes of appraisal, a representation (in words or an equation) that explains the relationship between value ... and variables representing factors of supply and demand." The appraisal model selected and used by the appraiser can be thought of as the formula that is mathematically processed to arrive at an estimate of value for a property. Therefore, the formulas given for the three approaches to value above could be referred to as "models".

These general models of the three approaches to value outlined above can be refined and expanded through a process referred to as model specification. Model specification is the designing of a model that is based upon appraisal theory and attempts to reflect the actions of buyers and sellers in the market. Specification of a model includes choosing variables to be

included in the formula and mathematically defining their relationship to each other and the property's value.

For example, the specification of a simple model is expressed below:

$$(SF, X \$, /SF) + (SFL X \$L/SF) = V$$

Where:
- SF = Improvement area in square feet
- \$/SF = Unit price of the improvement per square foot
- SF_L = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

The model could be even further refined as follows:

$$NHF X [(SF, X \$,/SF) + (SF_L X \$L/SF)] = V$$

Where:
- NHF = Neighborhood Factor
- SF = Improvement area in square feet
- \$/SF = Unit price of the improvement per square foot
- $SF_{L/}$ = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

As can be seen from the above demonstration, models can become very sophisticated in their attempt to reflect market conditions.

There are a multitude of models that have been developed for the mass appraisal process by assessing officials, vendors, and academics. Any of these models may be capable of producing accurate and uniform values for a particular class of property within a specified geographic area. However, not all models can be used for every type of property or in every jurisdiction nor do they all offer ease in administration. The market dictates what type of models should be used and administrative constraints, such as knowledge of the user and budget concerns, dictate what models can be used.

Whatever mass appraisal method(s) and model(s) a county chooses, they must be capable of producing accurate and uniform values throughout the jurisdiction and across all classes of property. The standards of accuracy and validation the ~~State Board~~Department of Local Government Finance will use to judge alternative mass appraisal methods are stated in the section of this manual entitled "Approval of Mass Appraisal Methods."

Minimum Data Requirements

Any mass appraisal method selected by a county must have certain types of data available. These minimum data requirements are intended to allow taxpayers to understand the valuation process and provide the necessary information for the ~~State Board of Tax Commissioners~~Department of Local Government Finance to perform its duties. These requirements are not intended to be restrictive but only to standardize the minimum data each county must have in its mass appraisal method. Any additional data a county wishes to collect is allowed under this rule.

Property Specific Characteristics:

- Parcel Number
- County
- Township
- Corporation
- Rectangular Survey Section #
- Subdivision/Plat Name
- Ownership information
- Street Address
- SBTC Property Class Code (See Appendix A)
- SBTC Taxing District #
- Neighborhood Code (residential only)
- SBTC Land Type Code (See Appendix B)
- Land dimensions
- Land Size
- Improvement(s) Sketch with labels
- Improvement Photograph (principal structure)
- Year of Construction for all improvements
- Condition Rating of all improvements
- Sales History with sales prices, annotated for any adjustments

- Assessment History from the last reassessment forward; broken down by land, improvement, and total

Comparative Data:

- Copies of all sales disclosure statements

Approval of Mass Appraisal Methods

~~The State Board of Tax Commissioners will provide assessing officials with an acceptable method of mass appraisal referred to as the 2002 Real Property Assessment Guidelines (Version A). The Guidelines will be issued by the SBTC at the time this rule becomes official. Should assessing officials in any county wish to modify the 2002 Real Property Assessment Guidelines (Version A) or use an alternative method; the~~ following steps shall be followed in approving ~~the modified 2002 Real Property Assessment Guidelines (Version A) or alternative~~a mass appraisal method:

1) Each county assessor shall become knowledgeable as to the various methods of mass appraisal available. ~~Included in these methods will be any real property appraisal manuals pre-approved by the State Board of Tax Commissioners.~~ All mass appraisal methods considered shall comply with the minimum data requirements outlined in this manual.

2) The county assessor shall ~~call a meeting of all township and trustee assessors within the county and make a proposal as to which mass appraisal method he/she feels is appropriate for the county.~~

~~3) All elected assessing officials within the county, after having heard the county assessor's proposal, shall make a recommendation to accept the proposed method or propose an alternative method. The county assessor shall~~ then make a final determination as to which mass appraisal method he/she prefers to be used in the county ~~based on the~~after discussions ~~of~~with other assessing officials in the ~~group~~county.

3) ~~4) 4)~~ The county assessor shall forward to the ~~State Board of Tax Commissioners~~Department of Local Government Finance the mass appraisal method recommended by the ~~local assessing officials~~county. The submission to the ~~State Board of Tax Commissioners~~Department of Local Government Finance shall include enough detail on the method to allow it to be adequately reviewed.

4) ~~5) The State Board of Tax Commissioners~~The Department of Local Government Finance shall review the submission using the following criteria:

a) ability to accurately measure "True Tax Value" as defined in this manual;
b) ease of administration by local assessing officials;
c) ability to be understood by taxpayers;
d) adherence to appraisal principles;
e) statistical support;
f) ability to produce data to be used in county and state ratio studies;
g) compliance with the following statistical support guidelines:[42]

1. statistical models must have a sound foundation in assessment, appraisal, and economic theory;

2. the model must generally generate random error terms as opposed to non-random error terms;

3. a general, unrestricted model that is simplified through analysis is better than an overly simple model that systematically adds variables to achieve better fit (i.e. overspecification). Generally,

[42] Part of this text are from "A Guide to Econometrics", Peter Kennedy, 3`d Ed., 1996, pg. 77-78

assessments must be based on the simpler of two models that produce equivalent results;

4. the model must be tested on a random selection of parcels for accuracy and goodness of fit;

5. the model must be able to incorporate rival models. That is, it must be able to explain the results, or lack thereof, for alternative models;

6. the explanation of the model must include a full description of the steps used to create the model and intermediate results that were achieved;

7. the explanation of the model must consider a variety of statistical measures as opposed to just the correlation coefficient (e.g. distribution of error terms, F statistic, sample size and error, etc.);

5) ~~6) The State Board of Tax Commissioners~~The Department of Local Government Finance shall approve or deny the use of the method.

6) ~~7)~~ Upon approval by the ~~State Board of Tax Commissioners~~Department of Local Government Finance, the local assessing officials shall note on township and county assessment records the date of approval of the mass appraisal method and shall include such notation on each property record card as required by IC 6-1.1-31-5.

7) ~~8)~~ If a county fails to select a mass appraisal method under this procedure, it shall be required to use the ~~2002 Real Property Assessment~~ Guidelines ~~(Version A) designated by the State Board of Tax Commissioners~~adopted by the Department of Local Government Finance.

The easiest way for a county to satisfy these criteria is to import a mass appraisal method with an existing computer assisted mass appraisal (CAMA) system that is used in substantially the same form in another assessing jurisdiction. This will allow the ~~State Board of Tax Commissioners~~Department of Local Government Finance to review the method's output from these other jurisdictions in making its determination as to the acceptability of the method.~~Under this rule, a county assessor may recommend a new and untried method. However, a county desiring to use a new and untried method will have to do more to demonstrate the method's ability to produce accurate and uniform values than if presenting a method that has been used successfully elsewhere. This requirement will include not only documentation but also demonstrable success of the new method on an actual sample of properties.~~

Responsibilities of Assessing Officials in Reassessment

~~Indiana State Board of Tax Commissioners (SBTC~~Department of Local Government Finance (DLGF) - In addition to the statutory duties assigned to it under various chapters of IC 6-1.1, the ~~SBTC~~DLGF will be responsible for:

- Approving the mass appraisal methods selected by the counties of the state.

- Conducting reviews of mass appraisal methods to ensure compliance with applicable laws.

- Conducting assessment ratio studies to determine the accuracy and uniformity of locally determined assessments.

- Reviewing assessment ratio studies and equalization conducted by county assessors.

Property Tax Assessment Board of Appeals (PTABOA) - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the county PTABOA's will be responsible for:

- Reviewing land value base rates set by township and county assessors prior to these rates being used to assess.

- Conducting public hearings on land value base rates set by township and county

- assessors prior to these rates being used to assess real property.

- Adjusting land value base rates, where necessary, in conjunction with counties contiguous to their counties to ensure cross-county uniformity.

County Assessor - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the county assessors will be responsible for:

- Reviewing mass appraisal methods for their applicability to the assessment of property within their respective counties.

- Conducting ~~meeting(s) of~~discussions with township and trustee assessors to select a mass appraisal method to be used within their respective counties.

- Directing the township and trustee assessors in the uniform valuation of land within their respective counties.

- Submitting to the ~~SBTC~~DLGF the mass appraisal method selected by assessing officials within their respective counties.

- Conducting assessment ratio studies to determine the accuracy and uniformity of assessments within the county.

- Equalizing assessments countywide and, where not performed by a township assessor, within townships.

Township and Trustee Assessor - In addition to the statutory duties assigned to them under various chapters of IC 6-1.1, the township and trustee assessors are responsible for:

- Determining land value base rates.

- Using the mass appraisal method selected by the county assessing officials and approved by the ~~SBTC~~DLGF.

- Conducting assessment ratio studies to determine the accuracy and uniformity of assessments within their respective township.

- Equalizing assessments within the township.

Assessment Ratio Studies and Equalization

The accuracy and uniformity of the assessments produced by any mass appraisal method shall be measured by an assessment ratio study. Should the results of the study show the assessments to be inaccurate and/or non-uniform, equalization shall be the remedy.

Assessment Ratio Studies

A ratio study is a measure of the performance of a mass appraisal method. It compares the assessing official's estimate of value with objectively verifiable data. The objectively verifiable data used in the comparison comes from selling prices and single-property appraisals prepared independent of the assessment process. Sales based ratio studies are preferred because they are less expensive and are more objective than independent single property appraisals.

The ratios used in assessment ratio studies are computed on individual properties by dividing the assessing official's estimate of assessed value, for the property by the sale price, or by an appraised value developed by single-property appraisal methods. If sale price was used, the ratio would be known as the assessment-sale price ratio. If appraised value was used, the ratio would be known as the assessment-appraisal ratio. The formula for an assessment-sale price ratio follows:

	A/S = (AV) ÷ SP
Where:	A/S = Assessment-sale Price Ratio AV = Assessed Value SP = Sale Price
*This variable is excluded for non-owner occupied property	

For example, assume a property sold for $104,000 and was assessed for $79,000Applying the above formula would yield the following:

$$A/S = (\$79,000) \div \$104,000$$

$$A/S = 0.7596 \text{ Rounded to } 0.76$$

In this example, the assessment-sale price ratio would be 0.76, which is the equivalent of seventy-six percent (76%). In other words, this property is assessed at seventy-six (76%) of the value it should be assessed. Ideally, all assessment ratios should be at one hundred percent (100%) in order to be considered accurate.

The ratio study uses assessment ratios as the basic data to measure the performance of a mass appraisal method. It statistically measures the accuracy and uniformity of the assessments produced by the mass appraisal method. Accuracy is measured through the application of statistics by measures of central tendency. Uniformity is measured through the application of statistics by measures of relative dispersion.

The statistical measure of central tendency most often used in assessment ratio studies is the median. The statistical measure of relative dispersion most often used is the coefficient of dispersion about the median. Both of these measures are defined in the definitions section of this rule.

The median assessment ratio reveals the "average" level at which property is assessed. If, for example, the median assessment ratio for single-family homes in a particular neighborhood is 0.86 (86%) the conclusion can be drawn that, on the average, all homes are assessed at 86% of their value. If the assessment level is supposed to be 100% for this neighborhood, then the ratio study has shown that single-family homes are underassessed and, therefore, not accurately assessed. Ideally, the median should be at 1.00 (100%). This means all properties are, on the average, accurately assessed. But since mass appraisal methods produce only estimates of value and are not an exact science, the actual median assessment ratio may vary from the ideal.

The coefficient of dispersion reveals the "average" difference between individual assessment ratios and the median assessment ratio. It demonstrates the typical amount of deviation the individual assessment ratios have from the median. If, for example, the coefficient of dispersion about the median ratio for single-family homes in a particular neighborhood is 0.18 (18%) the conclusion can be drawn that the individual assessment ratios deviate, on the average, plus or minus 18% from the median assessment ratio. Ideally, the coefficient of dispersion should be at 0 (0%). This means all properties are assessed at the level shown by the median and, therefore, no deviation is present. But, like the median assessment ratio, the actual coefficient of dispersion may vary from the ideal.

Equalization

Standards for evaluating the accuracy and uniformity of mass appraisal methods have been developed by the assessing community. These standards state the overall level of assessment, as determined by the median assessment ratio, should be within ten percent (10%) of the legal level. In Indiana, this means the median assessment ratio within a jurisdiction should fall between 0.90 (90%) and 1.10 (110%) in order to be considered accurate. This standard of ten percent (10%) on either side of the value provides a reasonable and constructive range for measuring mass appraisal methods.

These standards also state the coefficient of dispersion about the median should be at 0.15 (15%) or less for single-family residences and 0.20 (20%) or less for other classes of property. If the coefficient of dispersion is at, or below, these standards, then the mass appraisal method has produced uniform assessments. However, if the coefficient of dispersion is above these standards, then the mass appraisal method has produced non-uniform assessments.

Whenever inaccurate and/or non-uniform assessments are present, the county assessor and the ~~State Board of Tax Commissioners~~Department of Local Government Finance are required to equalize assessments. Equalization of assessments is the process of ensuring all property is, on the average, accurately and uniformly assessed. The equalization process can be accomplished in two ways; through the application of factors to correct the accuracy and through reassessment to correct non-uniformity.

The following decision chart shows when each of the equalization procedures are appropriate:

Median Assessment Ratio	Coefficient of Dispersion	Action Required
Accurate (0.90 to 1.10)	Uniform (=< 0.15)	Nothing
Accurate (0.90 to 1.10)	Non-uniform	Reassess
Inaccurate	Uniform (-< 0.15)	Apply Factors
Inaccurate	Non-uniform	Reassess

More details on assessment ratio studies and equalization will be found in the equalization rule, 50 IAC ~~14 (to be promulgated in 2001).~~14.

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Split/Merged cell	
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	Count
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Deletions	120
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Moved to	1
Style change	0
Format changed	0
Total changes	182

Mission of Reassessment

The mission of a reassessment is to inventory, verify, and value all real estate parcels. This process distributes the property tax burden in a uniform and equitable manner. The reassessment of real property includes the following:

- Land
- Buildings and fixtures situated on the land
- Appurtenances to land
- An estate in land or an estate, right, or privilege in mines located on the land or minerals located in the land if the estate, right, or privilege is distinct from the ownership of the surface of the land.

Residential, commercial and industrial land, and agricultural homesites are valued based on values established by the township assessor and reviewed by the Property Tax Assessment Board of Appeals (PTABOA). The ~~primary~~ method for valuing buildings and other improvements ~~is~~ the cost of replacing the improvement minus depreciation, ~~but~~ the comparable sales approach and capitalized income approach ~~may be used by the assessor if shown to be applicable.~~

Reassessment of Real Property

A general reassessment of all real property within the state is required as of March 1, 2002. ~~The next general reassessment is statutorily required for March 1, 2006.~~ The tax liability resulting from the reassessment is determined by multiplying the net district tax rate by the net assessed valuation of the property less any credits the property may qualify for. All taxes on real property are due in two (2) equal installments on May 10 and November 10 of the following year.

Assessing officials must follow the rules of the ~~State Board of Tax Commissioners~~ in making any assessment or reassessment of real property. Assessing officials must begin the reassessment of real property July 1, ~~1999~~, and complete it by March 1, 2002. The reassessment period for collecting data, inspecting, and valuing property is thirty-two (32) months.

Place of Assessment and Person Liable

Real property is assessed at the place where it is situated, and it is assessed to the person liable for the taxes as provided in IC 6-1.1-2-4(b) (c). Generally, the owner of any tangible property on the assessment date of a year is liable for the taxes imposed on the property for that year. However, a person holding, possessing, controlling, or occupying any tangible property on the assessment date of a year is liable for the taxes imposed for that year unless the property is assessed and taxed in the name of the owner, or the owner is liable for the taxes under a contract with that person.

Tangible property of a partnership is listed and assessed in the firm name with each partner jointly and severably liable for the taxes assessed.

This chapter describes the process of valuing commercial and industrial structures. It begins with an overview of the data collection procedure for structures. In order to understand the process of valuing commercial and industrial structures, you need to understand the following concepts, which are described in this chapter:

- sketching a structure
- measuring and calculating areas
- using the general commercial models
- using schedules
- understanding base rates for floor levels
- determining a structure's finish type
- determining a structure's use type
- determining a structure's wall type
- using a structure's floor height
- understanding the perimeter-to-area ratio for a structure
- determining a structure's construction type
- understanding vertical and horizontal costs
- determining the number of property record cards to use for a parcel.

The rest of the chapter provides step-by-step instructions for completing the relevant sections of the commercial/industrial property record card and for determining the true tax value for a structure.

There shall be a presumption that the reproduction or replacement cost determined by the prescribed schedules is the actual reproduction or replacement cost of the subject structure for purposes of determining true tax value. However, either the assessing officials or a taxpayer shall be permitted to consider and use other relevant and reliable information to rebut such presumption and establish the actual reproduction or replacement cost, ~~if the information was readily available to the assessor and taxpayer at the time the assessed value was set.~~

Contents

Tables

Appendix F Commercial and Industrial Depreciation

This appendix describes the concepts of accrued depreciation as applied in assessing:

- Commercial structures
- Industrial structures
- Commercial and Industrial yard structures

This appendix discusses how depreciation is used in the valuation process. It describes how the condition, age, desirability, and utility of a structure affect the determination of accrued depreciation. It provides step-by-step instructions for determining the normal depreciation percentage applicable to individual structures.

This appendix also provides instructions for calculating abnormal obsolescence.

Understanding the Concept of Depreciation as it Applies to Commercial and Industrial Property

Accrued depreciation is a loss in value to the cost new of the improvements from any and all causes. In estimating the replacement cost new of the improvements, you have determined the upper limit of value that the improvements will have on the valuation date. The accrued depreciation, therefore, is merely the difference between this upper limit of value (replacement cost new) and the true tax value of the improvement.

There are three major categories, or causes, of depreciation:

- **Physical Deterioration** is a loss in value caused by the building materials wearing out over time. It may be caused by wear and tear, use or abuse, action of the elements, and/or insect infestation.
- **Functional Obsolescence** is a loss in value caused by inutility within the improvement. It may be caused by defects in design, style, size, poor room layout, a deficiency, the need for modernization, a superadequacy, and/or by changes in the tastes of potential buyers.
- **External Obsolescence** is caused by an influence outside the property's boundaries that has a negative influence on its value. Noise, air, water, or light pollution; heavy traffic; inharmonious land uses; and/or crime are examples of external obsolescence.

Note: When applying any form of obsolescence the assessor should reevaluate the obsolescence on an annual basis.

In using the cost tables in this manual, you have produced a generalized cost estimation that is referred to as the *replacement cost new* of the structure. Replacement cost new is defined as the cost of constructing a building having the same utility as the subject structure but using modern construction materials, workmanship, and design. In so doing, you have effectively "cured" ~~most~~ some forms of functional obsolescence that exist in the structure~~, and, therefore, do not need to account for them in your depreciation estimate.~~

The depreciation on commercial and industrial structures is estimated as a lump sum percentage that accounts for the loss in value ~~from all three of the above categories~~. In this manual, this depreciation percentage will be referred to as **normal depreciation.** Any additional loss in value from ~~atypical forms of~~ obsolescence will be referred to as **abnormal obsolescence** and will be estimated separately from the normal depreciation.

Normal depreciation is estimated through the assignment of **typical life expectancies** and individual **structure condition classifications.**

The above examples of the various forms of obsolescence are given to provide typical types found in commercial and industrial properties. However, the obsolescence examples may or may not apply in specific markets depending upon buyer preferences. In other words, what is obsolete in one market may

("SOME FORMS OF FUNCTIONAL OBSOLESCENCE ARE ELIMINATED WHEN REPLACEMENT COST IS USED, BUT OTHER FORMS REMAIN UNAFFECTED.") THIS STATEMENT IS WRONG. SEE, THE APPR. OF REAL ESTATE, 12TH ED., P 365

not be considered obsolete in another market where there are different influences affecting value.

Determining the Actual Age of a Structure

The actual age of a structure should be determined from the records of the owner. If this is not available, public records such as building permits or older property record cards may be used.

Structures which have had additions built subsequent to the construction of the principal or original structure must have a "weighted" age calculated to use in place of the actual age when using the commercial and industrial depreciation tables. The method of calculating weighted age is one of weighting the actual age of the original structure and each of its additions by the square footage contained in each part of the structure.

Note: Depreciation is based on the number of years that have lapsed from the date of construction and the effective date of valuation. Therefore, in this manual the age of a structure is the difference between its date of construction and ~~January 1, 1999.~~

March 1, 2011.

Example: An industrial plant was originally built forty (40) years ago in 1959 and has had two additions; one twenty (20) years ago in 1979 and the second five (5) years ago in 1994. The original structure contained twenty thousand (20,000) square feet, addition one contained five thousand (5,000) square feet and addition two contained ten thousand (10,000) square feet. The calculation of the weighted age would be as follows:

Change + update age calculation

Part of Structure	Size		Total S.F.		%		Year		Contribution
Original plant	20,000	÷	35,000	=	57.14	X	1959	=	1,119.43
1st addition	5,000	÷	35,000	=	14.29	X	1979	=	282.71
2nd addition	10,000	÷	35,000	=	28.57	X	1994	=	569.71
Totals	35,000				100.00				1,971.85

1,971.85 rounds to the year 1972. Therefore, the structure has a weighted age of twenty-seven (27) years and the assessor would enter 1972 on the property record card in the age column under summary of improvements.

Understanding the Commercial and Industrial Structure Condition Classifications

The assessing official first determines the **structure condition classification** for the structure taking into account its physical condition, any inutilities, and location. The majority of structures will have an average structure condition classification. An average structure condition classification for a structure means it is in the average condition and has the average utility characteristics of the majority of the structures with the same age. Therefore, the structure given an average structure condition classification has experienced representative or typical maintenance and offers the same utility as the majority of structures within its age group.

Structures demonstrating higher maintenance, suffering from less inutility, and having superior locations than the majority of structures in the age group should be given condition classifications of good or excellent. Examples of these types of structures would include a structure having energy efficient replacement windows or a commercial structure that has had the façade modernized.

Structures demonstrating lower maintenance and suffering from more inutility should be given structure condition classifications of fair, poor, and very poor. Examples of these types of structures would include a structure that has a severely deteriorated roof or an industrial structure that is located away from any major form of transportation.

Table 1. Structure Condition Classifications, at the end of this appendix, describes the classifications that are to be assigned.

Determining the Normal Depreciation Percentage

This section provides the instructions for using the commercial and industrial depreciation tables to calculate the normal deprecation percentage for a structure.

Step 1 Determine the actual age (weighted age) of the structure using the procedure discussed in the section **Determining the Actual Age of a Structure** earlier in this appendix.

Step 2 Assign a structure condition classification to the structure by comparing it to structures of similar age. Structure condition classifications are summarized in **Table F-1. Structure Condition Classifications** later in this appendix.

Step 3 Determine the effective age of the structure by correlating the actual age (weighted age) with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table** located later in this appendix.

Step 4 Determine the typical life expectancy in years of the structure by referring to **Table F-3. Typical Structure Lives** located later in this appendix.

Step 5 Go to **Table F-4. Depreciation – Commercial/Industrial Structures** located later in this appendix and find the total life expectancy in year's column that you determined for the structure in Step 4 above.

Step 6 In the effective age column of the table, locate the row corresponding to the structure's effective age as determined in Step 3 above.

Step 7 Find the intersection of the selected row (effective age) and the selected column (typical life expectancy). This number is the percentage of normal depreciation from all causes suffered by the structure.

Example: A fifteen (15) year old supper club restaurant with a C grade, type 2 framing, has been assigned a structure condition classification of average based upon its physical condition and utility. Its effective age is determined to be fourteen (14) years by correlating its actual age with its structure condition rating in **Table F-2. Effective Age to Actual Age Conversion Table**. The typical life expectancy for a restaurant with a C grade, type 2 framing is thirty-five (35) years as shown in **Table F-3a. Typical Structure Lives**. Referring to **Table F-4. Depreciation – Commercial/Industrial Structures**, we correlate the row for an effective age of fourteen (14) years with the typical life expectancy column for thirty-five (35) years and find a normal depreciation of twenty-nine percent (29.0%).

Determining Abnormal Functional Obsolescence

The normal depreciation that has been estimated as outlined in the first part of this appendix accounts for typical physical deterioration ~~and typical obsolescence~~. Any abnormal or excessive functional and external obsolescence that affect the structure must be considered separately since they have not been accounted for in the normal depreciation table.

Abnormal obsolescence is calculated using different methodologies depending upon the type of inutility it represents. There are numerous methodologies and as a general rule, common appraisal concepts and methods may be used to determine obsolescence under true tax value. *See Canal Square v. State Board of Tax Commissioners.* A discussion of some of the most common methods to calculate functional obsolescence is included below. This is not intended to be an exhaustive list, however, any method used by an assessor or by a taxpayer on appeal must establish certain factors of reliability to be used as a basis for ~~awarding~~ obsolescence.

~~The United States Supreme Court has provided rules for determining the general~~ reliability of scientific and technical evidence used in judicial proceedings in *Daubert v. Merrell Dow Pharmaceuticals*, 113 S. Ct. 2786 (1993). The Board believes that given the acceptance of the *Daubert* standard by Indiana courts that it is appropriate to use these standards as a general indicator of reliability of evidence used to calculate functional obsolescence.

In *Daubert*, the Court held that to be relevant, "[p]roposed testimony must be supported by appropriate validation -- *i.e.*, 'good grounds,' based on what is known." 113 S. Ct. at 2795. In other words to be reliable evidence, a scientific or technical study must satisfy the following conditions:

- Is the evidence reliable?
- Is the evidence relevant? For example, does the evidence "fit" the case? Relevance may be indicated by:
  - whether the theory can be and has been tested;
  - whether the theory has been subject to peer review and published;
  - rate of error and maintenance of standards;
  - general acceptance of the theory in the relevant scientific community. *Kumcz v. Honda North America, Inc.*, 166 F.R.D. 386, 388 (D.C.Mich 1996)

In addition to the general requirements for relevancy discussed above, both the United States Supreme Court and Indiana Supreme Court have recognized that scientific evidence can be reliable for one purpose and not another, and that to be relevant to a particular inquiry, the proponent of the evidence must establish a valid scientific connection between the theory and the specific facts of the case. ~~*Daubert*, 113 S.Ct. at 2796; *Steward*, 652 N.E.2d at 498.~~

~~In addition to the factors applied by the courts to establish reliability,~~ the ~~Board~~ will consider a number of ~~additional~~ factors to determine the relevancy of evidence regarding obsolescence. The first factor is whether the alleged

maladies of the property actually lead to a loss of value. Evidence of such loss of value may be based on the assessor's observations of the property, statistical evidence establishing a correlation between the faults of the property and its value, or from anecdotal evidence if sufficiently reliable. In many cases there will be causes of obsolescence that cannot be easily seen by the assessor. In these cases, it is ~~incumbent on the taxpayer~~ to establish a link between the evidence and the loss in value. For statistical evidence this may be established by providing sufficient evidence of correlation of the evidence to value. For anecdotal evidence establishing reliability is more difficult. Uncorroborated assertions by the taxpayer in a tax appeal regarding the value of its property ~~are inherently~~ unreliable unless they can be confirmed either by other ~~statements~~ or by the opinions of impartial observers. For example, a statement by a taxpayer that its property is worthless is not reliable if the same taxpayer has produced sales literature extolling the virtues of the property and discussing its great value.

Most Common Methods for Calculating Functional Obsolescence

Functional obsolescence is calculated using different methodologies depending upon the type of inutility it represents. Listed below are the most common forms of functional obsolescence and the appropriate methodologies used to convert them into a dollar loss in value.

- A **deficiency requiring an addition** is something lacking in the improvement that potential owners of the property desire. An example of this would be an office building without central air conditioning located in a neighborhood where all comparable, competing office buildings have central air conditioning. The depreciation caused by this type of functional obsolescence is calculated by determining the cost of adding (retrofitting) the item less the cost to install the item in new construction. Using the example in this paragraph; a contractor estimates it would cost $40,000 to add central air conditioning to the office building at the present time and the manual shows the cost new of this air conditioning system is $30,000. The amount of functional obsolescence would be calculated as follows:

Cost to add (retrofit) air conditioning	$40,000
Less cost new of air conditioning from manual	- 30,000
Functional Obsolescence	$10,000

- The **need for modernization** means the improvement has the item desired by the potential owners but it is outdated or inefficient. An example of this would be a ventilating system in an industrial plant that does not effectively remove heat and odors from the manufacturing area. The depreciation caused by this type of functional obsolescence is calculated by taking the cost new of the item, less the physical depreciation already charged, less the salvage value of the existing item (if any), plus the cost to remove the existing item and the added cost to install the new, modern item. Using the example in this paragraph; the cost new of the current ventilating system was $20,000, it was physically depreciated 50%, had a salvage value as scrap metal of $500, and the cost to remove the existing system and install the new system was

$30,000. The amount of functional obsolescence would be calculated as follows:

Cost new of existing system	$20,000
Less physical depreciation already charged @ 50%	- 10,000
Less salvage value	- 500
Plus cost of removing old and installing new system	+ 30,000
Functional Obsolescence	$39,500

- A superadequacy in a structure is an item that is bigger, better or larger than potential owners demand. For example, assume you have an apartment building that is heated by a central, gas-fired boiler that produces steam. The boiler has a capacity that is twice as big as necessary to heat the building; therefore, it is superadequate. The depreciation caused by this type of functional obsolescence is calculated by taking the cost new of the item, less the physical deterioration already charged, plus the cost of removal of the item and the installation cost of a new adequate item, less the salvage value (if any) of the superadequate item.

  Using the example in this paragraph; the cost new of the existing boiler is $8,000, it was physically depreciated 80% and had a salvage value of $200 as scrap metal. The cost to remove the existing boiler and install a new, adequate boiler is $12,000. The amount of functional obsolescence would be calculated as follows:

Cost new of existing boiler	$8,000
Less physical depreciation already charged @ 80%	- 6,400
Less salvage value	- 200
Plus cost of removing old and installing new boiler	+ 12,000
Functional Obsolescence	$13,400

- **Excess operating costs** are often incurred by a property that suffers functional obsolescence. This means the inutility within ~~the~~ structure or between causes ($) the owner to have to pay more to operate the property than he/she would if the inutility did not exist. An example of this would be an industrial property that has had a warehouse addition made to the main plant. Because of the site size and/or zoning restrictions, the warehouse addition was constructed in a manner that makes the movement of materials between the main plant and the warehouse less than efficient, thereby causing inutility. In order to overcome this inutility, the owner of the plant has had to purchase a forklift and hire an operator that would not have been needed had the warehouse been an integral part of the main plant. The depreciation is calculated as follows:

  a. Sum the annual cost of the operator's wages plus overheads (payroll taxes, insurance, and other benefits) and the annual operating expenses on the forklift (fuel, maintenance, and depreciation).

  b. Determine the number of years of remaining economic life for the main plant. This is the number of years from the date of valuation until you expect the plant to have a zero value. It is calculated by subtracting the effective age of the plant from its total life

expectancy; both estimated under the normal depreciation procedure.

c. Discount the total annual excess operating costs over the remaining economic life of the main plant at an appropriate discount rate to get the amount of functional obsolescence. A discussion of "discounting" can be found in any appraisal text that discusses the income approach to value.

Example:

Forklift operator's annual wages	$20,000
Operator's overheads (35% of wages)	7,000
Maintenance on forklift	1,000
Fuel for forklift	3,000
Depreciation on forklift	2,000
Total annual excess operating costs	$33,000
Times Present Worth of 1 per Period factor for 20 years (remaining economic life of plant) at a 12% discount rate	x 7.46944
Functional obsolescence	$246,492

Other recognized appraisal methods for determining obsolescence may also be used if based on reliable and relevant data, ~~if the data was readily available to the assessor at the time the assessed value was set.~~

Calculating Total Depreciation for Income Producing Properties

The market most often uses a capitalized income approach to value income producing properties. This approach converts an estimate of the income the property receives from rent into value through a mathematical process known as capitalization. It more accurately reflects the actions of buyers and sellers of such properties than does the cost approach to value used in the manual.

The simplest method of capitalization is done through the use of Gross Income Multipliers (GIM). The use of this capitalization method requires certain assumptions. The first is the property will remain rented at a constant rate with no unusual vacancies. The second is that the subject and the comparable properties used in the analysis are truly comparable in that they are subject to the same market influences. The third is that any differences between the subject and the comparables are reflected in the rents each receives.

Dividing a property's sale price by its annual income (rent) derives a gross income multiplier (GIM). The resultant GIM is a number that tells you how many times gross annual rent a purchaser paid for the property being analyzed. Completing this calculation for all sold comparable properties within an area will yield a range of GIM's from which can be chosen the typical GIM for the area.

The mechanics of the GIM method are:

1) Derive GIM's from comparable sales by dividing the sale price by the gross annual income/rent that each was receiving at the time of sale.
2) Calculate the total value of the subject property by multiplying its annual gross rent by the appropriate GIM.

Compare this total value from the capitalization process to the subject property's RCN plus land value. If the capitalized value is equal to or greater than the RCN plus land value, no depreciation exists on the subject property. If the RCN plus land value is greater than the capitalized value, the difference between the two values is the indicated total depreciation for the subject property.

Other more sophisticated versions of the capitalized income approach may be used to determine total depreciation if based on reliable and relevant data, ~~if the data was readily available to the assessor at the time the assessed value was set.~~

Determining Abnormal External Obsolescence

External obsolescence can either be temporary or permanent. Temporary external obsolescence is caused by factors in the market such as an oversupply of the type of space it provides. This is sometimes found in income producing (rental) properties such as apartments, hotels/motels, office buildings, and retail commercial space such as shopping centers and downtown mercantile buildings. Permanent external obsolescence is caused by the subject property's location to an encroaching land use. Examples of this would be location in proximity to an environmental hazard, inharmonious land uses surrounding the property, and the absence of zoning and land use controls.

~~The same discussion contained in the section **Determining Abnormal Functional Obsolescence** in this appendix with regard to the *Daubert* standard applies in the case of external obsolescence. The Board believes that given the acceptance of the *Daubert* standard by Indiana courts it is appropriate to use these standards as a general indicator of reliability of evidence used to calculate external obsolescence.~~

Market data must be used in estimating external obsolescence. ~~Therefore, it becomes necessary to isolate the effect that external obsolescence has on land value separately from building value.~~ Its effect on land value is ~~demonstrated~~ in the land value assigned to the subject property. Its effect on building value is the only concern discussed in this appendix because it is the depreciation of the structure that we are concerned with at this point in the true tax value determination. A properly determined land value ratio developed for the neighborhood in the land value process is used to determine the amount of external obsolescence to be allocated to the building.

Example: You have estimated $20,000 as the total external obsolescence for a commercial property. The land value ratio established for commercial property in this neighborhood is 1:3 meaning that one (1) part of the total value is in the land and three (3) parts are in the improvements. To determine the amount of external obsolescence on the improvements, you must allocate out of the total obsolescence three (3) parts, which is equal to seventy-five percent (75%). Therefore, 3 parts or 75% of $20,000 total obsolescence equals $15,000 of external obsolescence on the commercial building.

BECAUSE EXTERNAL OBSOLESCENCE AFFECTS THE TOTAL PROPERTY — IMPROVEMENT AND LAND — THE OBSOLESCENCE ATTRIBUTABLE TO THE IMPROVEMENT MUST BE ISOLATED.

THE INSERT IS A QUOTE FROM "PROPERTY ASSESSMENT VALUATION", P. 173 (IAAO, 1996)

Calculating Abnormal External Obsolescence

comparing comparable sales of similar properties

There are two methods of measuring external obsolescence, both requiring the use of market data. ~~These two methods are known as paired sales analysis and~~ capitalization of rent loss.

MY COMMENTARY

The reference to the paired sales analysis as being one of only two metods to estimate external obsolescence in incorrect. See, e.g. International Association of Assessing Officers, PROPERTY APPRAISAL AND ASSESSMENT ADMINISTRATION (1990), p. 229. ("Like Incurable functional obsolescence, economic obsolescence can be measured either be comparable sales, or capitalization of income.") Therefore, to bring the manual into compliance with generally accepted appraisal theory, it is suggested that the following example drawn closely from from the IAAO text, PROPERTY ASSESSMENT AND VALUATION, SECOND ED. (1997) 175 be inserted at this point.

Sales Comparison Method. Assume that a residence in an area zoned exclusively for residential purposes is located adjacent to an interstate highway, but without any access to the interstate. Analysis of sales of comparable properties that are not adjacent to the interstate indicate a loss of market value of $8,000 for this condition. Land value for the subject is $3,000 less than for comparable sales that are not adjacent to the busy street. External obsolescence may be estimated as follows:

Market value loss	$8,000
Land Value Difference	($3,000)
Loss attributable to improvement	$5,000

Sale Price of comparable w/o obsolescence, adjusted to assessment date	$94,000	+ 5%	=	$98,700
Sale Price of comparable with obsolescence adjusted to assessment date	$80,000	+ 10%	=	$88,000
Difference in adjusted selling prices (Indicated total market external obsolescence)				$10,700
Divided by sale price of comparable with external obsolescence			÷	$88,000
Equals percentage market external obsolescence			=	12.2%
Allocated to building using the L:B ratio of 1:3	12.2% x 75%		=	9.2%
Rounded to				9.0%

Therefore, 9.0% is the amount of external obsolescence that the subject property's improvements should receive and is applied to the remainder value of those improvements.

Capitalization of Income Method

This method of estimating external obsolescence uses the income approach to value techniques whereby the rent loss caused by the external obsolescence is capitalized into an estimate of the loss in total property value. The assessing official estimates how much net rent is being lost by the subject property due to the external influence (external obsolescence). This net rent loss is then capitalized by an overall capitalization rate using the capitalization formula to arrive at the dollar amount of total external obsolescence for the property.

To determine the dollar amount of external obsolescence to be applied to the remainder value of the subject improvements, the land value ratio is applied to the total external obsolescence as explained earlier in this appendix. This dollar amount of external obsolescence is then converted to a percentage by dividing it by the remainder value of the subject improvements.

Example: An office building containing 40,000 square feet of leaseable area suffers a vacancy rate of 20% due to an oversupply of office space in the market. The normal vacancy rate for this type of property in a more active market is 5%, therefore 15% (actual vacancy of 20% minus normal vacancy of 5%) of the space cannot be utilized in the current market. The net rent of the subject property is $5.00 per square foot annually. The land value ratio for office buildings in the area is 1:5 and the capitalization rate is 12%. You have already calculated the remainder value at $1,700,000.

The external obsolescence percentage to be applied to the subject improvements is calculated as follows:

Calculation of unused space	= 40,000 SF x 15%	=	6,000 sq. ft.
6,000 sq. ft. x $5.00/ sq. ft.	=		Annual rent loss or $30,000
Capitalized (divided by) cap rate of 12%		÷	12%
Equals Total External Obsolescence		=	$250,000
Allocated to building using the L:B ratio of 1:5	$250,000 x 83.33%	=	$208,333
Converted to a percentage by dividing the building external obsolescence by the remainder value	$208,333 ÷ $1,700,000	=	12.26%
Rounded to			12.00%

Therefore, 12.0% is the amount of external obsolescence that the subject property's improvements should receive and is applied to the remainder value of those improvements.

Obsolescence for Special-Purpose Properties

This section provides recommendations for estimating industry-wide obsolescence of special-purpose properties. The State Board of Tax Commissioners reserves the right to perform the assessment of some or all special-purpose properties, or to authorize the local assessor to perform such analysis. A special-purpose property is defined as:

> *A limited-market property with unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.*[1]

Typically, this would include industrial properties designed for a particular industry or use, steel mills, or specialized types of manufacturing facilities.

The steps in this analysis include:

1. Estimating the reproduction cost new of the improvements
2. Breaking down the obsolescence into its component parts
3. Estimating the land value
4. Subtracting Step 2 from Step 1 to get the improvement value
5. Adding Step 4 to Step 3 to the total property value

Underlying Principles

The reliance on value-in-use as opposed to value-in-exchange is similar to the difference between the bid and ask price for an asset. The bid price is what a buyer is willing to pay to purchase an asset, the ask price is what the seller is willing to take in exchange for an asset. Typically, the bid price will initially be lower than the ask price, some negotiation will occur, and when the two are equal an exchange will take place.

We will first consider the motivations of the seller. A seller of a special-purpose industrial property would accept nothing less than a price equal to the utility being gained from the property. For properties currently in use, this amount would be termed the value-in-use (i.e. the ask price). A buyer of a special-purpose property would initially bid no more than necessary to motivate the seller. In many cases, a buyer would start with the liquidation value of the property (i.e. the bid price). Assuming that the buyer intends to use the property for its current use, the buyer will likely adjust the bid price until a transaction is completed. Since the seller has no motivation to sell at anything less than the value-in-use for a special-purpose property, the ask price becomes the benchmark for a likely transaction.

Contrast the value-in-use premise with value-in-exchange. In this scenario, the underlying assumption is that both parties are motivated to undertake the transaction. From the seller's perspective, the only time this would occur would be if one of two conditions are met: 1) the bid price equals the value-in-use or 2) the seller no longer desires to continue to use the property. For special-purpose industrial properties, this would be a very special circumstance such as liquidation, transfer of assets or operations to a different location, etc., and would not reflect the

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 342.

utility gained by the seller of continuing to own and use the property. Therefore, under a value-in-use premise, the assessment will more likely resemble the ask price as opposed to the bid price.

There are also several important definitions and economic concepts related to the proposed methodology. The terms used in this analysis are defined as:

> Special-Purpose Property: *A limited-market property with unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.*[2]
>
> Use Value: *The value a specific property has for a specific use.*[3]

These definitions do not refer to the "user" but rather the "use". This difference is material in applying obsolescence factors and determining which traditional appraisal adjustments should be used. Value-in-use has already been determined as an appropriate basis for assessing special-purpose properties based on the "property wealth" concept proposed in St. John III and reaffirmed in the latest decision of December of 1998.[4]

Further, this proposed methodology meets the court's recent ruling that each taxpayer does not have the right to "absolute and precise exactitude as to the uniformity and equality of each individual assessment...nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax appeals"[5]. The proposed analysis relies heavily on industry-wide data as it applies to the utility of the specific property.

Estimating Reproduction Cost New

The primary source for estimating the reproduction cost new will be the commercial and industrial cost tables. Special-purpose properties may have higher cost per square foot estimates than other industrial properties due to several factors. For instance, special-purpose properties will likely require more time to construct, which will add additional inflationary costs, interest costs, and holding period costs. Also, special-purpose properties may require unusual or made-to-order materials that are more expensive than normal construction materials. To the extent that special-purpose properties require more investment during construction before realizing a return to the owner, there is more risk involved as well. All of these factors can be taken into account through the estimate of soft costs in calculating the total cost per square foot.

Replacement cost, as opposed to reproduction cost, is the preferred method of cost estimation. However, estimating the replacement cost may not be possible for unique facilities, for situations where the plant engineer is unavailable, or where there is inadequate documentation for the assessor to use in determining an optimal facility. In these cases, reproduction cost estimating is the most reliable method.

[2] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 342.
[3] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383.
[4] State Board of Tax Commissioners v. Town of St. John, 702 N.E. 2d 1034 (Ind. 1998), aff'g in part and rev'g in part Town of St. John III.
[5] State Board of Tax Commissioners v. Town of St. John, , 702 N.E. 2d 1034 (Ind. 1998), aff'g in part and rev'g in part Town of St. John III.

There shall be a presumption that the reproduction or replacement cost determined by the prescribed schedules is the actual reproduction or replacement cost of the subject structure for purposes of determining true tax value. However, either the assessing officials or a taxpayer shall be permitted to consider and use other relevant and reliable information to rebut such presumption and establish the actual reproduction or replacement cost, ~~if the information was readily available to the assessor and taxpayer at the time the assessed value was set.~~

Adjustments to Reproduction Cost

Any portion of the facility not in use, or not in the process of being adapted for use, as of the assessment date requires adjustment ~~under the value-in-use estimate~~. The assessor should subtract the cost of such improvements from the reproduction cost prior to adjusting for physical, functional, and external obsolescence. The physical, functional, and external obsolescence adjustments should reflect that such costs have already been subtracted out.

Estimating Physical Depreciation

The assessor should be concerned about estimating items of physical depreciation that jeopardize the foreseeable (5 years or less) usefulness of the facility (based on the portion remaining after subtracting the cost of unused areas). These should be itemized and the cost to repair or replace the item of physical depreciation should be estimated. Many companies maintain budgeted maintenance or capital improvement schedules that will serve as additional supporting documentation for the determination of physical depreciation and its cost.

Estimating Functional Obsolescence

Newly constructed facilities or specialized uses where the production function (or type of equipment) has not substantially changed since the original construction should not exhibit functional obsolescence. This assumes that the facility was originally designed to be efficient and that functional inefficiencies would not have been created purposefully. Substantial changes in technology, accepted production methods, and product specifications may result in property experiencing obsolescence even given its current use. If the ~~entire~~ use of the facility has changed over time, the assessor may find forms of functional obsolescence. In this case, the assessor should also reevaluate whether or not the real property is a special-purpose property to be evaluated under this methodology since it may have demonstrated a broader set of willing buyers and sellers during the sale process. ~~Finally,~~ functional obsolescence usually ~~does not occur gradually over time but rather~~ is tied to specific events (e.g. a change in use, a change in production process, etc.) that can be objectively determined and will not occur simply because of age.

One difficulty that will arise in this approach is for facilities that contain production equipment requiring unusual physical layouts. For example, technologies that process items in rolls or "lengths" (e.g. paper and steel) usually have a production process that is in a straight, long line and may not allow for more efficiently shaped buildings. As long as the facility's design matches the needs of the production process, an unusually shaped building would not receive functional obsolescence adjustments ~~under a value-in-use approach.~~ based on the building's shape alone.

When a physical inspection shows some form of functional obsolescence, one way of estimating obsolescence is calculating the percentage difference (as opposed to absolute difference) between the current utilization rate of the existing facility and the recent industry average utilization rate for similar facilities (the Census Bureau and Federal Reserve publish utilization rate data). If this calculation indicates a negative percentage, the facility exhibits functional obsolescence relative to the rest of the industry. If this calculation provides a positive percentage, no functional obsolescence exists.

In performing the above calculation, the assessor still has to determine if the percentage differences were due to functional obsolescence versus management decisions. One way to account for this is to look at averages of these statistics over longer periods of time (5 years). To the extent that a specific facility has consistently had lower or higher utilization rates over this 5-year period of time, functional obsolescence is likely to be present. To the extent that the difference is a relatively recent phenomenon that is not exhibited over the 5-year period of time, management decisions are likely to be a more significant cause. Poor management decisions will not allow the taxpayer to claim more functional obsolescence.
Another way to estimate management effects versus functional obsolescence is to consider the specific property's design and expectations. Often, data is available from plant engineers and historical internal documents that indicate the original intended utilization rate (i.e. the intended or expected utilization rate, not the maximum possible rate). A comparison of the current utilization to the original intended utilization, after adjusting for changes in the industry's utilization rate as a whole, would indicate if the facility is being underutilized relative to its potential. The calculation would be the percentage change in the facility's intended utilization rate (adjusted for changes that have occurred in the industry as a whole) compared to the facility's recent utilization rate. Again, a negative number indicates functional obsolescence and a positive number indicates no functional obsolescence.

Estimating External (Economic) Obsolescence

Appraisers sometimes use no external obsolescence adjustments at all for special-use properties because the appraisal is for value-in-use as opposed to value-in-exchange. Consequently, factors that would affect the value to other buyers and sellers are often irrelevant to the value that is being evidenced by the owner's on-going use of the facility.

The first step is to gather utilization data for the most specific SIC code that can be determined. The assessor then compares the average utilization rate for this SIC over a sustained period of time (i.e. the longest period that data is available from the Federal Reserve) to the most recent utilization data (i.e. 1998) for the same group. If the difference between the two estimates is within the sampling error for the data, then there is no external obsolescence adjustment. If the difference is more than the sampling error, external obsolescence is calculated by taking the following formula:

$$\frac{\text{1998 Utilization Rate less Long-term Utilization Rate}}{\text{Long-term Utilization Rate}} = \text{External Obsolescence}$$

This adjustment can be up or down. An upward adjustment would imply that an industry that has very high demand or relatively tight supply such that the value in use of the property has risen and therefore should be taxed at a higher assessed value.

In the unusual instance where a taxpayer can show that a special-purpose property contains a lease or rental income stream, the taxpayer may attempt to challenge the external obsolescence calculation by capitalizing the difference between market and contractual income. Such adjustments should not be allowed for several reasons including:

- the assessment is based on property wealth regardless of whether that wealth accrues to the landlord or the tenant
- the lack of comparable income data
- the absence of reliable capitalization rate indicators, and
- the difficulty of allocating such income discrepancies between physical, functional, and external obsolescence.

Further, the external obsolescence adjustment relying on utilization rates overcomes all of these barriers and so is an adequate form of adjustment by itself.

Other generally accepted methods of calculating obsolescence may be found in standard appraisal text and may be used where properly applicable if the data was readily available to the assessor at the time the assessed value was set.

Determining the Depreciation Percentage for Yard Structures

This section provides instructions for calculating depreciation applicable to commercial and industrial yard structures. The following process is followed.

Step 1 Determine the effective age of the yard structure by correlating the actual age of the yard structure with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table.**

Step 2 Go to **Table F-3e. Typical Yard Structure Lives** at the end of this appendix. Find the total life expectancy for the subject yard structure in these tables.

Step 3 Go to **Table F-4. Depreciation – Commercial/Industrial Structures.** In the effective age column, locate the row corresponding to the structure's effective age as determined from Step 1.

Step 4 Find the intersection of the selected row (effective age) and the selected column (total economic life expectancy). This number is the total depreciation percentage for the structure and represents all physical deterioration, functional and external obsolescence.

Example: A ten (10) year old, concrete parking lot, with a structure condition classification of fair has an effective age of twelve (12) years as shown in the **Table F-2 Actual Age to Effective Age Conversion Table.** It has a total economic life expectancy of fifteen (15) years as shown in **Table 4-3e. Typical Yard Structure Lives.** It would have a total depreciation of sixty percent (60.00%) as shown in **Table F-4. Depreciation – Commercial/Industrial Structures.**

Table F-1. Structure Condition Classifications

Classification	Indicated Depreciation
Excellent	All items that can normally be repaired or refinished have recently been corrected, such as new roofing, paint, HVAC overhaul or replacement, etc. The structure suffers no functional inadequacies of any kind and all short-lived components are in like-new condition. Excellent location for the type of structure.
Good	No obvious maintenance required with few signs of deterioration but not everything is new. The structure has above standard appearance and utility for structures of its age. Very good location for the type of structure.
Average	No evidence of deferred maintenance; need for a few minor repairs along with some refinishing. All major components still functional for age of the structure. Minor inutilities typical for structures of like age and design. Average location for the type of structure.
Fair	Evidence of deferred maintenance; need for replacement or major overhaul of some physical components. Building has inadequate utility and services for structures of like age and design. Fair location for the type of structure.
Poor	Many repairs needed; the structure suffers from extensive deferred maintenance. It suffers from major inutilities in that it lacks several amenities that the majority of structures of its age and design offer. Undesirable location for the type of structure.
Very Poor	Extensive repairs needed; the structure suffers from extensive deferred maintenance and is near the end of its physical life. It suffers from extensive inutilities in that it lacks most amenities that the majority of structures of its age and design offer. Poor location for the type of structure.

Note: In determining condition classifications identify the classification that best fits the structure being assessed. Not all of the descriptions must be met. The intent is to classify a structure considering all physical, functional, and external factors and weighing them accordingly.

Table F-2. Actual Age to Effective Age Conversion Table

	Effective Age based upon Condition Classification					
Actual Age	Excellent	Good	Average	Fair	Poor	Very Poor
0	0	0	0	0	0	0
01-03	1	2	2	2	3	3
04-06	3	4	5	6	7	8
07-09	4	6	8	9	11	12
10-12	6	8	11	12	15	17
13-15	7	11	14	15	18	21
16-18	9	13	17	19	23	26
19-21	10	15	20	22	26	30
22-24	12	17	23	25	30	35
25-27	13	20	26	29	34	39
28-30	15	22	29	32	38	44
31-33	16	24	32	35	42	48
34-36	18	26	35	39	46	53
37-39	19	29	38	42	50	57
40-42	21	31	41	45	54	62
43-45	22	33	44	48	58	66
46-48	24	35	47	52	62	71
49-51	25	38	50	55	65	75
52-54	27	40	53	58	69	80
55-57	28	42	56	62	71	80
58-60	30	44	59	65	73	80
61-63	31	47	62	68	75	80
64-66	33	49	65	72	79	80
67-69	34	51	68	75	80	80
70-72	36	53	71	78	80	80
73-75	37	56	74	80	80	80
76-78	39	58	77	80	80	80
79 and older	40	60	80	80	80	80

Table F-3a. Typical Structure Lives - GCM

		Framing Type			
Occupancy	Quality Grade*	1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Apartment	≥ B	50	55	60	60
Apartment	≤ C	45	50	55	55
Auto Service	≥ B	40	45	50	50
Auto Service	C	35	40	45	45
Auto Service	≤ D	30	35	40	40
Auto Showroom	≥ B	40	45	50	50
Auto Showroom	C	35	40	45	45
Auto Showroom	≤ D	30	35	40	40
Bank	≥ B	50	55	60	60
Bank	C	45	50	55	55
Bank	≤ D	40	45	50	50
Bowling Alley	≥ B	35	40	45	45
Bowling Alley	≤ C	30	35	40	40
Car Wash Auto	≥ B	25	30	35	35
Car Wash Auto	C	20	25	30	30
Car Wash Auto	≤ D	20	20	25	25
Convenience Market	≥ A	40	45	50	50
Convenience Market	B, C	35	40	45	45
Convenience Market	≤ D	30	35	40	40
Country Club	≥ B	45	50	55	55
Country Club	≤ C	40	45	50	50
Dining/Lounge	≥ A	40	40	45	45
Dining/Lounge	B, C	35	35	40	40
Dining/Lounge	≤ D	30	30	35	35
Funeral Home	≥ A	50	50	55	55
Funeral Home	B, C	45	45	50	50
Funeral Home	≤ D	35	40	45	45
Garage - Parking	≥ B	35	40	45	45
Garage - Parking	≤ C	30	35	40	40
Health Club	≥ B	40	45	50	50
Health Club	≤ C	35	40	45	45
Hotel	≥ B	45	50	60	60
Hotel	C	45	50	55	55
Hotel	≤ D	40	45	50	50
Ice Rink	≥ B	40	45	50	50
Ice Rink	C	35	40	45	45
Ice Rink	≤ D	30	35	40	40
Motel	≥ B	45	50	60	60
Motel	C	45	50	55	55

Occupancy	Quality Grade*	Framing Type 1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Motel	≤ D	40	45	50	50
Nursing Home	≥ A	50	55	60	60
Nursing Home	B, C	45	50	55	55
Nursing Home	≤ D	40	45	50	50
Office - General	≥ B	50	55	60	60
Office - General	C	45	50	55	55
Office - General	≤ D	40	45	50	50
Office - Medical	≥ B	40	45	50	50
Office - Medical	≤ C	35	40	45	45
Retail - Department Store	≥ B	45	50	55	55
Retail - Department Store	≤ C	40	45	50	50
Retail – Discount Store	≥ B	35	40	45	45
Retail – Discount Store	≤ C	30	35	40	40
Retail - General	≥ B	45	50	55	55
Retail - General	C	40	45	50	50
Retail - General	≤ D	40	40	45	45
Shopping Ctr. - NH	≥ C	35	40	45	45
Shopping Ctr. - NH	≤ D	30	35	40	40
Shopping Ctr. - Regional	≥ B	50	55	55	55
Shopping Ctr. - Regional	≤ C	45	50	55	55
Supermarket	≥ A	40	45	50	50
Supermarket	B, C	35	40	40	40
Supermarket	≤ D	30	35	40	40
Theater	≥ A	40	45	50	50
Theater	B, C	35	40	45	45
Theater	≤ D	30	35	40	40
Utility/Storage	≥ B	30	35	40	40
Utility/Storage	C	25	30	35	35
Utility/Storage	≤ D	20	25	30	30

* ≤ means equal to or less than the quality grade shown; ≥ means equal to or greater than the quality grade shown

Table F-3b. Typical Structure Lives - GCI

Occupancy	Quality Grade*	Framing Type 1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Garage - Commercial	≥ B	35	40	45	45
Garage - Commercial	≤ C	30	35	40	40
Hangar	≥ AA	40	45	50	50
Hangar	A, B	35	40	45	45
Hangar	C	35	40	45	45
Hangar	≤ D	30	35	40	40
Manufacturing - Heavy	≥ B	50	55	60	60
Manufacturing - Heavy	≤ C	45	50	55	55
Manufacturing - Light	≥ B	40	45	50	50
Manufacturing - Light	C	35	40	50	50
Manufacturing - Light	≤ D	35	40	45	45
Manufacturing - Loft	≥ A	50	55	60	60
Manufacturing - Loft	B, C	40	50	55	55
Manufacturing - Loft	≤ D	35	40	50	50
Manufacturing – Mill	All	40	50	60	60
Office - Industrial	≥ B	35	40	45	45
Office - Industrial	C	30	35	40	40
Office - Industrial	≤ D	25	30	35	35
Power Generating Plant	All	45	50	55	55
Research & Development	≥ B	45	50	55	55
Research & Development	C	40	45	50	50
Research & Development	≤ D	35	40	50	50
Shop - Small	≥ B	30	35	40	40
Shop - Small	≤ C	25	30	35	35
Storage - Heavy Utility	≥ B	50	55	60	60
Storage - Heavy Utility	≤ C	45	50	55	55
Storage - Light Utility	≥ B	30	35	40	40
Storage - Light Utility	C	25	30	35	35
Storage - Light Utility	≤ D	20	25	30	30
Terminal – Truck	All	40	45	50	50
Warehouse – Light	≥ B	40	45	50	50
Warehouse – Light	C	35	40	50	50
Warehouse – Light	≤ D	35	40	45	45
Warehouse – Loft	≥ A	50	55	60	60
Warehouse – Loft	B, C	40	50	55	55
Warehouse – Loft	≤ D	35	40	50	50
Warehouse – Mini	≥ B	40	45	50	50
Warehouse – Mini	C	35	40	45	45
Warehouse – Mini	≤ D	30	35	40	40

* ≤ means equal to or less than the quality grade shown; ≥ means equal to or greater than the quality grade shown

Table F-3c. Typical Structure Lives - GCR

		Framing Type
Occupancy	Quality Grade*	1 Wood Joist
Apartment	≥ A	55
Apartment	B, C	50
Apartment	≤ D	45
Bank	≥ B	50
Bank	C	45
Bank	≤ D	40
Dining/Lounge	≥ A	40
Dining/Lounge	B, C	35
Dining/Lounge	≤ D	30
Funeral Home	≥ A	50
Funeral Home	B, C	45
Funeral Home	≤ D	35
Motel	≥ B	40
Motel	C	35
Motel	≤ D	30
Nursing Home	≥ B	40
Nursing Home	≤ C	35
Office - General	≥ B	50
Office - General	C	45
Office - General	≤ D	40
Office - Medical	≥ B	40
Office - Medical	≤ C	35

* ≤ means equal to or less than the quality grade shown; ≥ means equal to or greater than the quality grade shown

Table F-3d. Typical Structure Lives - GCK

		Framing Type
Occupancy	Quality Grade*	Light, Pre-engineered Steel and Pole Frame
All occupancies	≥ B	35
All occupancies	C	30
All occupancies	≤ D	25

* ≤ means equal to or less than the quality grade shown; ≥ means equal to or greater than the quality grade shown

Table F-3e. Typical Structure Lives – Yard Structures

Yard Structure	Quality Grade	Life Expectancy
Bins – Corrugated Metal	All	15
Bins - Dry Storage	All	30
Bleachers - Permanent	Steel	30
Bleachers - Permanent	Wood	20
Bleachers - Portable	All	25
Bridges – Highway	All	60
Bridges – Pedestrian	All	30
Bridges - Skyway	All	30
Bulkhead Piling	Conc.	35
Bulkhead Piling	Stone	25
Bulkhead Piling	Wood	5
Canopies C/I	≥ B	30
Canopies C/I	≤ C	20
Car Wash Buildings – Do It Yourself	≥ B	30
Car Wash Buildings – Do It Yourself	C	25
Car Wash Buildings – Do It Yourself	≤ D	20
Car Wash Buildings – Drive Thru	≥ B	30
Car Wash Buildings – Drive Thru	C	25
Car Wash Buildings – Drive Thru	≤ D	20
Chimneys – Brick	All	40
Chimneys – Metal	All	25
Courses - Miniature Golf	All	5
Courts - Paddle Tennis	All	20
Courts - Shuffle Board	All	25
Courts – Tennis	Asp	20
Courts – Tennis	Clay	10
Dikes – Earth	All	5
Docks – Commercial; Steel Piles	Steel	30
Docks – Commercial; Wood Piles	Wood	25
Elevators – Grain	Conc.	60
Elevators – Grain	Steel	35
Fence - Chain Link	All	15
Fence – Wood	All	10
Greenhouses – Aluminum	All	25
Greenhouses – Pipe	All	20
Greenhouses – Steel	All	20
Greenhouses - Wood	All	10
Guard Rails	All	10
Horizontal Storage	All	45
Incinerators - Brick	All	20
Incinerators - Steel	All	15

Yard Structure	Quality Grade	Life Expectancy
Liners - Landfill	All	25
Masonry Walls	All	25
Paving – Asphalt	All	10
Paving – Concrete	All	15
Paving – Crushed Stone	All	5
Railroad Siding	All	10
Retaining Walls	All	10
Silos - Trench and Bunker	All	20
Stacks – Concrete and Brick	All	40
Stacks – Steel	All	25
Stadiums - Sports	All	40
Standpipes – welded steel	All	30
Surface Reservoirs – concrete tanks	All	35
Tanks - Bulk Storage	All	25
Tanks - Elevated Steel	All	35
Tanks - Fuel Oil	All	25
Tanks - General	All	20
Tanks - Oil Storage; Bolted Steel Type	All	25
Tanks - Oil Storage; Welded Steel Type	All	25
Tanks - Water Storage; Steel (Reservoirs)	All	30
Tanks - Water Storage; Wood	All	20
Tanks - Welded Steel Pressure	All	20
Theaters - Drive-In	All	30
Towers	All	50
Tracks - Running	All	20
Turf - Artificial	All	5

Table F-4. Depreciation - Commercial and Industrial Structures

Effective Age	Total Economic Life Expectancy											
	60	55	50	45	40	35	30	25	20	15	10	5
0	0	0	0	0	0	0	0	0	0	0	0	0
01-03	1	2	2	2	3	4	4	6	7	8	20	40
04-06	4	4	5	6	7	9	12	15	20	35	40	80
07-09	6	7	8	10	12	15	19	25	33	42	60	80
10-12	9	10	12	14	18	22	28	36	48	60	80	80
13-15	12	13	16	19	24	29	37	48	61	80	80	80
16-18	15	17	20	25	30	37	46	59	73	80	80	80
19-21	18	21	25	30	37	45	56	71	80	80	80	80
22-24	21	24	29	36	44	54	65	77	80	80	80	80
25-27	25	29	35	43	52	62	74	80	80	80	80	80
28-30	29	34	41	49	59	70	78	80	80	80	80	80
31-33	34	40	47	56	67	74	80	80	80	80	80	80
34-36	38	45	53	62	72	78	80	80	80	80	80	80
37-39	43	51	59	69	77	80	80	80	80	80	80	80
40-42	49	57	64	73	79	80	80	80	80	80	80	80
43-45	54	62	69	77	80	80	80	80	80	80	80	80
46-48	59	66	73	79	80	80	80	80	80	80	80	80
49-51	64	71	77	80	80	80	80	80	80	80	80	80
52-54	68	75	79	80	80	80	80	80	80	80	80	80
55-57	71	78	80	80	80	80	80	80	80	80	80	80
58-60	73	79	80	80	80	80	80	80	80	80	80	80
61-63	76	80	80	80	80	80	80	80	80	80	80	80
64-66	78	80	80	80	80	80	80	80	80	80	80	80
67-69	79	80	80	80	80	80	80	80	80	80	80	80
70-72	80	80	80	80	80	80	80	80	80	80	80	80
73-75	80	80	80	80	80	80	80	80	80	80	80	80
76+	80	80	80	80	80	80	80	80	80	80	80	80

Using the Commercial Swimming Pool Depreciation Table

There is one (1) commercial swimming pool depreciation table. In order to use this table you must first determine the age of the swimming pool.

The actual age of the swimming pool on the date of the general reassessment is to be used. Should the pool show excessive deferred maintenance for its actual age, an effective age of six (6) years less than the pool's construction year may be used to determine total depreciation.

Notes: Swimming pools are only depreciated during the general reassessment year; no further depreciation is to be applied until the next general reassessment.

No obsolescence is to be given on commercial swimming pools.

To determine the total depreciation percentage for a swimming pool, perform the following steps:

Step 1: In the "Age" column, locate the row corresponding to the swimming pool's actual age or effective age.

Step 2: Find the intersection of the selected row (age) and the "Depreciation" column. This number is the total depreciation percentage for the swimming pool.

Example: A commercial swimming pool is nine (9) years old. The Commercial Swimming Pool Depreciation Table indicates the total depreciation percentage for the swimming pool is twenty-five percent (25%).

Note: Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a commercial swimming pool are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

Table F-5. Commercial Swimming Pool Depreciation

Price swimming pool from standard schedule and depreciate on the basis of a 20 year life expectancy, as follows:

Age	Depreciation
01-02	5
03-04	10
05-06	15
07-08	20
09	25
10	30
11-12	35
13-14	40
15-16	50
17-18	55
19-20	60
21-22	65
23-25	70
Over 25	75-80

Using the Golf Course Physical Deterioration Table

There is one (1) golf course normal depreciation table. In order to use this table you must first determine the condition and actual age of the golf course as explained in this Appendix.

To determine the normal depreciation percentage for a golf course, perform the following steps:

Step 1: In the rating column, locate the row corresponding to the golf course's condition.

Step 2: Find the intersection of the selected row (condition) and the "Depreciation" column. This number is the normal depreciation percentage for the golf course.

Example: A golf course is twelve (12) years old and has a condition of Fair. The Golf Course Depreciation Table indicates the percentage for the golf course is twenty percent (20.00%).

Note: Instructions for recording the normal depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a golf course are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

Table F-6. Golf Course Depreciation

Suggested normal depreciation allowances based upon a composite rating of the overall condition, desirability and functional usefulness of the course. Use after three (3) years.

NOTE: The indicated depreciation listed refers to the following items:

- Tees
- Bunkers
- Greens
- Lakes
- Sprinkler systems
- Site preparation
- Landscaping

Rating	Indicated Depreciation	Depreciation Percentage
Excellent	No deferred maintenance exists. All items that can normally be repaired or refurbished have recently been corrected. The course has superior appearance for courses of its age and design. The course suffers no functional inadequacies of any kind and short-lived components are in like-new condition.	0
Good	No obvious maintenance required with few signs of deterioration but not everything is new. The course has above standard appearance and utility for courses of its age and design.	10
Average	No evidence of deferred maintenance; need for a few minor repairs along with some refurbishing. All major components still functional for age of the course. Minor inutilities typical for courses of like age and design.	15
Fair	Evidence of deferred maintenance; need for replacement or major overhaul of some items. Course has inadequate utility and services for courses of like age and design.	20
Poor	Many repairs needed; the course suffers from extensive deferred maintenance. It suffers from major inutilities in that it lacks several amenities that the majority of courses of its age and design offer.	25
Very Poor	Extensive repairs needed; the course suffers from extensive deferred maintenance. It suffers from extensive inutilities in that it lacks most amenities that the majority of courses of its age and design offer.	50

Note: In determining condition ratings identify the rating that best fits the course being assessed. Not all of the descriptions must be met. The intent is to classify a course considering all physical and functional factors and weighing them accordingly.

Add an additional allowance for extraneous devaluing factors contributing to economic obsolescence as may be required

EXTERNAL OBSOLESCENCE (1 - 3 years)

	EX	G	AV	F	P	VP
0 to 1 year old	30	35	35	35	40	60
1 to 2 year old	20	25	25	25	25	40
2 to 3 year old	10	10	10	10	15	20

Note: External obsolescence is applied to the remaining value
After normal depreciation is applied.

Using the Riverboat Depreciation Table

There is one (1) riverboat depreciation table. In order to use this table you must first determine the actual age of the riverboat.

To determine the total depreciation percentage for a riverboat, perform the following steps:

Step 1: In the "Age" column, locate the row corresponding to the riverboat's actual age.

Step 2: Find the intersection of the selected row (age) and the "Depreciation" column. This number is the total depreciation percentage for the riverboat.

Example: A riverboat is four (4) years old. The Riverboat Depreciation Table indicates the total depreciation percentage for the riverboat is fifteen percent (15%).

Note: Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a riverboat are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

Table F-7. Riverboat Depreciation

Actual Age	Depreciation
01	5
02	10
03-04	15
05-06	20
07-08	25
09-10	30
11-12	35
13-14	40
15-16	45
17-20	50
21-26	55
27-30	60
Over 30	65

Calculating Total Depreciation Percentage for Special Use Commercial Properties

Special use commercial properties are special purpose buildings (fast food restaurants and service stations) that are not readily adaptable to other uses.

These types of structures go out of style both functionally and economically at a faster rate than they physically deteriorate due to changes in consumer preferences and demand. The businesses they house are highly competitive and rely heavily on site location and physical appearance. In order to keep up with the competition, owners renovate the interiors of the structures more frequently than they do on most general commercial structures.

Competition, oversaturation, changes in consumer habits, and changes in traffic patterns are a few of the factors that have an influence on the success of the operation. The obsolescence caused by these factors influences the life span of the buildings. Periodic renovation of these type structures cures most forms of obsolescence. Therefore actual age must be converted to effective age following the guidelines earlier in this appendix used for determining effective age.

A depreciation table that reflects the relatively short life of this type structure is provided in this Appendix. The table reflects normal physical depreciation and obsolescence.

To determine the total depreciation for special use commercial properties, perform the following steps:

Step 1 Assign a structure condition classification to the structure relative to structures of similar age. Structure condition classifications are summarized in **Table F-1. Structure Condition Classifications** earlier in this appendix.

Step 2 Determine the effective age of the structure by correlating the actual age (weighted age) with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table** located earlier in this appendix.

Step 3 In the "Effective Age" column of the Special Use Commercial Table, locate the row corresponding to the effective age of the building.

Step 4 Find the intersection of the selected row (effective age) and the "Depreciation" column. This number is the total depreciation percentage for the building.

Note: Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of special use commercial structure are provided in the section ***Calculating the Remainder Value*** section in Chapter 8.

Table F-8. Special Use Commercial Property Depreciation

Effective Age in years	Depreciation
01	5
02	10
03	15
04	20
05	25
06	30
07-08	35
09-10	40
11-12	45
13-14	50
15-16	55
17-19	60
20-21	65
22-24	70
25-30	75
Over	80

GRAIN ELEVATOR DEPRECIATION CONSIDERATIONS

Grain elevators are special purpose structures and, with very few exceptions are rarely convertible into other uses. Therefore, the assessor must carefully estimate all forms of depreciation correctly. Table F-4e allows the assessor to determine the physical deterioration and normal obsolescence suffered by the grain elevator but does not account for abnormal obsolescence caused by such factors as excess storage capacity, lack of transportation facilities (major highways, railroads, or waterways), nor other types of inutilities caused by changes in the agricultural economy.

Besides the normal depreciation from Table F-4e, the assessor must also determine the amount of abnormal obsolescence caused by factors such as these. The determination of the amount of abnormal obsolescence requires a comparative analysis of current operating data and the total licensed capacity. For example, a grain elevator has a total licensed capacity of 300,000 bushels. Over the last five years of operation, the elevator has stored an average of 240,000 bushels. Therefore it is suffering from abnormal functional obsolescence because, in the current market, it has 60,000 bushels of excess capacity.

The assessor should value the grain elevator by first calculating the replacement cost new of the structure. Taking the average number of bushels stored for the most recent five years and multiplying by the unit costs given in this manual accomplishes this. Replacement cost is preferred as opposed to reproduction cost because replacement cost estimates the cost of a physical structure with similar utility. ~~This estimate of cost should be closely aligned with value-in-use. As discussed under Concepts of Cost in the *Introduction* to this manual,~~ Replacement cost eliminates the cost of obsolete materials, design, and building techniques. In so doing, most forms of functional obsolescence have been "cured" and do not have to be accounted for in the depreciation estimate. The assessor should then follow the steps outlined in this appendix for determining the normal depreciation and apply this depreciation percentage to the replacement cost new estimate.

The amount of abnormal obsolescence should be reviewed annually and adjusted if necessary.

Wolter, Catherine

From: Rushenberg, Tim
Sent: Thursday, May 08, 2008 12:43 PM
To: Wolter, Catherine
Subject: FW: 080320 - Musgrave Memo - Provisional and Reconciling Property Tax Bills.pdf - Adobe Reader

Add to "public comments" folder.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: Beth Henkel [mailto:bhenkel@schuckitlaw.com]
Sent: Thursday, April 10, 2008 11:53 AM
To: Rushenberg, Tim
Subject: RE: 080320 - Musgrave Memo - Provisional and Reconciling Property Tax Bills.pdf - Adobe Reader

Tim -- I contacted you about this because of our prior discussions on the significance of value in use.

We would be glad to send you more details on concerns, but please provide the new proposed definition of true tax value and "surrounding concepts" if there are any.

The Manual currently has several pages outlining the market value in use concept and there is also guidance in the Guidelines on how to
demonstrate obsolescence.

So, if you change the definition for reassessment, but incorporate other language that protects against the argument that industrial and commercial facilities should be valued based upon what they would sell to a willing buyer, then that is important to know.

I don't want to express concerns more formally without a better picture
of what is proposed to change.

The reason I bring this up at this juncture is to provide an opportunity to vet the issue more fully with the affected units before the change becomes public.

Beth Henkel, Esq.
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-----Original Message-----
From: Rushenberg, Tim [mailto:trushenberg@dlgf.in.gov]
Sent: Wednesday, April 09, 2008 7:42 PM
To: Beth Henkel
Subject: Re: 080320 - Musgrave Memo - Provisional and Reconciling Property Tax Bills.pdf - Adobe Reader

I'll forward you the memo. Send me your concerns about the proposed rule in writing and if you know of others, tell them to send us written comments, too. Public hearing will likely be in mid-June.

----- Original Message -----
From: Beth Henkel <bhenkel@schuckitlaw.com>
To: Rushenberg, Tim
Sent: Wed Apr 09 18:51:18 2008
Subject: RE: 080320 - Musgrave Memo - Provisional and Reconciling Property Tax Bills.pdf - Adobe Reader

Tim:

I understand there was a follow-up memo regarding treasurer statements. Would you please forward? Porter County needs to clarify how to move forward on provisionals.

I also left you a message regarding a pressing matter on changing the definition of true tax value from market value in use to value in exchange - or fair market value. To my knowledge, assessors, counties, schools and other affected units have not been consulted on this proposed change.

Such a change would have a profound effect on the valuation of commercial and industrial property - and a complete fiscal analysis of the impact on local units of government is in order before such a decision is made.

I understand that state law requires the DLGF to submit any rule having a fiscal impact on business to OMB for a fiscal analysis. A concern is that a thorough understanding of the significance of this change should be understood in that process, and that the analysis

should not be simply on the potential benefit to business. I believe that the decline in assessed value would be huge, especially as to industrial property, special use property, and large big-box commercial facilities, such as Meijer, Lowes, WalMart, etc. In many communities across the state, the
big box stores represent their top 10 taxpayers.

By way of example, here's an analysis of the difference between value in use and value in exchange:

Several appraisal authorities have attempted to define value-in-use in the context of real estate appraisals. For example, value-in-use has been defined as a calculation of the value "for a specific use or to a specific user, affecting the extent to which the property contributes to the utility or profitability of the enterprise of which it is part."23 Value-in-use also has been defined as the "value of an economic good to its owner-user which is based on the productivity . . . of the economic good to a specific individual" and as "subjective value" that "[m]ay not necessarily represent market value."24 Other appraisal authorities have emphasized that "the key concept under value-in-use is the contribution of an object to a user."25

The Appraisal Institute uses the terms "use value" and "value-in-use" interchangeably in its publications The Appraisal of Real Estate and The Dictionary of Real Estate Appraisal. In The Appraisal of Real Estate, the Appraisal Institute notes that:

. . . use value, is a concept based on the productivity of an economic good. Use value is the value a specific property has for a specific use.
Use value focuses on the value the real estate contributes to the enterprise of which it is a part, without regard to the property's highest and best use or the monetary amount that might be realized upon its sale. Use value may vary depending on the management of the property and external conditions such as changes in the business. For example, a manufacturing plant designed around a particular assembly process may have one use value before a major change in assembly technology and another use value afterward.

Real property may have a use value and a market value. An older factory that is still used by the original firm may have considerable use value to that firm, but only a nominal market value for another use.

Respectfully submitted,

Beth Henkel

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From: Rushenberg, Tim [mailto:trushenberg@dlgf.in.gov]
Sent: Thursday, March 20, 2008 10:11 AM
To: Beth Henkel
Subject: 080320 - Musgrave Memo - Provisional and Reconciling Property Tax Bills.pdf - Adobe Reader

Beth,

FYI -- see attached. Some new provisions affecting provisional tax bills per HEA 1001.

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance Indiana Government Center North 100 North Senate Avenue N1058(B) Indianapolis, IN 46204
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Wolter, Catherine

From: Rushenberg, Tim
Sent: Monday, May 05, 2008 2:55 PM
To: Wolter, Catherine
Subject: FW: IAAO Library-legal value standard by state
Attachments: 0908_001.pdf

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Atherton, Thomas [mailto:TAtherton@boselaw.com]
Sent: Mon 5/5/2008 2:22 PM
To: Rushenberg, Tim
Subject: FW: IAAO Library-legal value standard by state

Tim,

I am forwarding this email I received from the IAAO and hope it may be useful in the DLGF's consideration of proper standard of value to be included in the next Manual. The attached table shows that use value is the predominant standard of value for agricultural properties (including timber). However, apart from agricultural properties and the states of Nevada and Montana, market value is the almost universal standard and use value is almost "unused."

I will bring copies of the table to the meeting. Since the IAAO didn't include the title or source of the document in the table, it may be unclear where the document came from, and I wanted you to be able to see the source.

Tom

From: Mary Odom [mailto:Odom@iaao.org]
Sent: Monday, May 05, 2008 12:02 PM
To: Atherton, Thomas
Subject: IAAO Library-legal value standard by state

Good Morning Mr. Atherton,

Thank you for contacting the IAAO Library concerning the legal value standard for each state. I have attached a section from the *Property Tax Policies and Administrative Practices in Canada and the United States* published by IAAO in 2000. The question that the state's answered for this section is below:

"Indicate the number of parcels in each type of property and the legal level of assessment for each property category. Also please check which value standard applies, such as market value, for each property type. If the value standard is market value, please indicate in the base year column whether it is current market value or if the market value is established as of a certain point in time (such as a base year of 1990)."

If you need further assistance, please contact me again.

Best Regards,

Mary Odom
Research Librarian
International Association of Assessing Officers
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"I cannot live without books." -Thomas Jefferson

From: IAAO 5870U [mailto:5870@iaao.org]
Sent: Monday, May 05, 2008 10:01 AM
To: Mary Odom
Subject: Attached Image

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ST/PV		Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
AL	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
AK	Number of Parcels														
	Assessment Level	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		
	Market Value	X	X	X	X	X	X	X	X	X	X	X	X		
	Base Year	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current		
	Use Value	X													
	Acquisition Value											X			
	Other Value Standard														
AZ	Number of Parcels														
	Assessment Level	16%	25%	25%	25%	25%	25%	25%	21%	10%	10%	25%	25%		
	Market Value		X	X						X	X				
	Base Year														
	Use Value	X													
	Acquisition Value				X		X	X							
	Other Value Standard					X			X			X	X		
AR	Number of Parcels														
	Assessment Level	20%	20%	20%	20%	20%		20%	20%	20%	20%	20%	20%		
	Market Value	X	X	X	X	X		X	X	X	X	X	X		
	Base Year	Current	Current	Current	Current	Current		Current	Current	Current	Current	Current	Current		
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
CA	Number of Parcels	577,893	403,353	154,655	w/ PP	15,614		1,320,091	26,000	8,123,289	584,543		26,000		
	Assessment Level	Full value	Full value	Full value	Full value	Full value		Full value	Full value	Full value	Full value		Full value		
	Market Value							X	X						
	Base Year	X	X	X		X				X	X				
	Use Value	X													
	Acquisition Value		X	X		X				X	X				
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
CO	Number of Parcels	N/A	63011	4379	N/A	N/A	N/A	213,553	N/A	1,175,842		N/A	N/A		
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
CT	Number of Parcels														
	Assessment Level	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%		
	Market Value	X	X	X	X	X	X	X	X	X	X	X	X		
	Base Year	X	X	X						X	X		X		
	Use Value									X	X		X		
	Acquisition Value														
	Other Value Standard														
DE	Number of Parcels	N/A													
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
DC	Number of Parcels	N/A													
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
FL	Number of Parcels	224,393	253,311	68,260			1,139,682		227	3,504,440	162,814				
	Assessment Level														
	Market Value		X	X	X	X	X	X	X	X					
	Base Year	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current		X		
	Use Value	X										Current			
	Acquisition Value											X		X	
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
GA	Number of Parcels														
	Assessment Level	40%	40%	40%	40%	40%		40%		40%	40%				
	Market Value	X	X	X	X	X		X		X	X				
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
HI	Number of Parcels	N/A													
	Assessment Level	100%	100%	100%						100%	100%		Exempt		
	Market Value	X	X	X						X	X				
	Base Year	Current	Current	Current						Current	Current				
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
ID	Number of Parcels	134,724	35,944	2,801		1,000		19,992	9	523,901		16,313	67	71	37
	Assessment Level	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		100%
	Market Value		X	X	X	X		X	X	X	X	No			X
	Base Year		1998	1998	1998	1998	1998	1998	1998	1998	1998	1998	1998	1998	1998
	Use Value	X										X			
	Acquisition Value	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Other Value Standard						Exempt			Portion					
IL	Number of Parcels	610,364	287,042	57,775					2,516	3,774,331					
	Assessment Level	N/A	33.33%	33.33%					33.33%	33.33%	33.33%				
	Market Value		X	X					X	X	X				
	Base Year	Current	Current	Current					Current	Current	Current				
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
IN	Number of Parcels	N/A													
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
IA	Number of Parcels				Phase-out										
	Assessment Level	100%	100%	100%	22%	100%	N/A	N/A	100%	100%	100%	100%	100%		
	Market Value		X	X		X			X	X	X		X		
	Base Year		Current	Current		Current			Current	Current	Current		Current		
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
KS	Number of Parcels	398,108	68,690							798,518		Productivity	4,383	128,916	55,690
	Assessment Level	30%	25%	25%	25%	25%		25%	25%	11.5%	11.5%	30%	33%	12%	30%
	Market Value		X	X		X			X	X	X		X	X	X
	Base Year		Current	Current		Current			Current	Current	Current		Current	Current	Current
	Use Value	X										X			
	Acquisition Value				Cost formula			Cost formula							
	Other Value Standard														
KY	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
LA	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
ME	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)	Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
MD	Number of Parcels	55,261	61,049	16,493				308,000	12	1,593,571	8,648		335		
	Assessment Level		40%	40%				100%	40%	40%	40%		100%		
	Market Value		X	X						X	X				
	Base Year														
	Use Value	X													
	Acquisition Value														
	Other Value Standard		Income	Income				Original	Income				Income		
MA	Number of Parcels														
	Assessment Level		100%	100%						100%	100%				
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
MI	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
MN	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
MS	Number of Parcels														
	Assessment Level	15%	15%	15%	15%		15%	15%	15%	10%	15%	15%	30%		
	Market Value		X	X	X		X	X	X	X	X		X		
	Base Year		Current	Current	Current		Current	Current	Current	Current	Current		Current		
	Use Value														
	Acquisition Value				X			X							
	Other Value Standard														

ST/PV		Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)													
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
MO	Number of Parcels	591,605	163,608							2,220,201					
	Assessment Level	12%	32%	32%	33.33%	32%		33%	32%	19%	19%	12%			
	Market Value		X	X	X	X		X	X	X	X				
	Base Year	Odd	Odd	Odd	Odd	Odd			Odd	Odd	Odd	Odd			
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
MT	Number of Parcels	255,000	70,000	1,250						313,000		39,975			
	Assessment Level														
	Market Value		X					X		X					
	Base Year		1997					1998		1997					
	Use Value	X		X	X							X	X		
	Acquisition Value														
	Other Value Standard														
NE	Number of Parcels	287,000													
	Assessment Level	80%													
	Market Value	80%	100%	100%	100%	100%		100%		100%	100%				
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard								Allocated				Allocated		
NV	Number of Parcels	15,725	18,586	4,450	90,976		50	100,263	19	459,957	20,513		159		
	Assessment Level	35%	35%	35%	35%		35%	35%	35%	35%	35%		35%		
	Market Value						X		X				X		
	Base Year				X		X	X							
	Use Value	X	X	X		X	X			X	X				
	Acquisition Value				X		X	X							
	Other Value Standard	Bulletin				Min. val.									
NH	Number of Parcels														
	Assessment Level		100%	100%					100%	100%	100%		100%		
	Market Value	X	X	X		X			X	X	X		X		
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard											Stumpage			

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
NJ	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
NM	Number of Parcels														
	Assessment Level	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%		
	Market Value		X	X					X	X	X		X		
	Base Year	2 yrs. prior	2 yrs. prior	2 yrs. prior	2 yrs. prior	2 yrs. prior	2 yrs. prior	2 yrs. prior	Current	2 yrs. prior	2 yrs. prior		Current		
	Use Value														
	Acquisition Value														
	Other Value Standard	X			X	X			X				X		
NY	Number of Parcels	92,411	367,214	27,229		2,668			5,031	3,339,894	561,713	57,358	58,807	765,312	97,935
	Assessment Level	Uniform %	Uniform %	Uniform %		Uniform %				Uniform %	Uniform %	Uniform %	Uniform %	Uniform %	Uniform %
	Market Value	X	X	X						X	X	X	X	X	X
	Base Year														
	Use Value					X									
	Acquisition Value														
	Other Value Standard														
NC	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
ND	Number of Parcels														
	Assessment Level	5%	5%						5%	4.5%			5%		
	Market Value		X						X	X			X		
	Base Year		Current						Current	Current			Current		
	Use Value	X													
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
OH	Number of Parcels	474,000	368,000	62,000									400		
	Assessment Level	35%	35%	35%	25%	35%		25%		35%	35%	35%	Various		
	Market Value		X	X	X	X		X		X	X	X	X		
	Base Year		Current	Current	Current	Current		Current		Current	Current	Current	Current		
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
OK	Number of Parcels	401,647	117,297							1,418,978		Incl. in ag.			
	Assessment Level	11–13.5%	11–13.5%									11–13.5%			
	Market Value		X												
	Base Year														
	Use Value	X										X			
	Acquisition Value														
	Other Value Standard				Guides	X	X	X					Unit value		
OR	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
PA	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
RI	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
SC	Number of Parcels														
	Assessment Level														
	Market Value		X	X	X	X	X	X	X	X	X	X	X	X	
	Base Year														
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
SD	Number of Parcels	262,032	42,018							264,342					
	Assessment Level	100%	100%	100%					100%	100%	100%		100%		
	Market Value	X	X	X					X	X	X		X		
	Base Year	Current	Current	Current					Current	Current	Current		Current		
	Use Value														
	Acquisition Value														
	Other Value Standard														
TN	Number of Parcels	285,483	173,040	8,735	w/ PP	3,875	12	193,202	w/ Utilities	2,305,282	w/ Comm.	Exempt	6,100+		
	Assessment Level	25%	40%	40%	30%	40%	40%	30%	30%–40%	25%	40%		55%	40%	40%
	Market Value	X	X	X		X			X	X	X		X	X	X
	Base Year	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current
	Use Value														
	Acquisition Value				X			X							
	Other Value Standard						X								
TX	Number of Parcels														
	Assessment Level	100%	100%	100%	100%	100%		100%	100%	100%	100%	100%	100%	100%	
	Market Value	X	X	X	X	X		X	X	X	X		X	X	
	Base Year											X			
	Use Value	X													
	Acquisition Value														
	Other Value Standard														
UT	Number of Parcels														
	Assessment Level	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Market Value		X	X	X	X	X	X	X	X	X	X	X	X	X
	Base Year	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current
	Use Value	X													
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
VT	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
VA	Number of Parcels														
	Assessment Level	100%	100%	100%	100%	100%		100%	100%	100%	100%	100%	100%		
	Market Value	X	X	X	X	X		X	X	X	X	X	X		
	Base Year	Current	Current	Current	Current	Current		Current	Current	Current	Current	Current	Current		
	Use Value	X													
	Acquisition Value														
	Other Value Standard	Market													
WA	Number of Parcels														
	Assessment Level	100%	100%	100%	100%		Exempt								
	Market Value	X	X	X	X	X		X	X	X	X		X		
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard		Current								Statute				
WV	Number of Parcels	56,000	58,000	3,300	2,700		1,000,000			1,100,000		6,200	4,117		
	Assessment Level	60%	60%	60%	60%	60%	60%			60%		60%	60%		
	Market Value		X	X	X	X	X			X		X	X		
	Base Year		Current	Current	Current	Current	Current			Current		Current	Current		
	Use Value	X												X	
	Acquisition Value														
	Other Value Standard														
WI	Number of Parcels	453,240	250,344							All	3,140,186	317,439		192,122	
	Assessment Level	100%	100%							100%		100%		100%	
	Market Value		X							X		X		X	
	Base Year														
	Use Value	X													
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
WY	Number of Parcels	31,915	34,106			1,048				233,112					
	Assessment Level	9.5%	9.5%	11.5%	11.5%	100.0%	11.5%	11.5%	11.5%	9.5%	9.5%	9.5%	11.5%		
	Market Value		X	X	X	X	X	X	X	X	X	X	X		
	Base Year		Current	Current	Current	Current	Current	Current	Current	Current	Current	Current	Current		
	Use Value														
	Acquisition Value														
	Other Value Standard	Productive													
AB	Number of Parcels	401,000	115,230		27,900				1,010	983,200					
	Assessment Level	100%	100%		100%				100%	100%			100%	77%	
	Market Value		X							X					
	Base Year														
	Use Value								X						
	Acquisition Value				X										
	Other Value Standard	Productive			Regulated				Regulated				Regulated	Regulated	
BC	Number of Parcels	57,520	96,566	5,464						1,335,300	13,934	4,693	15,396	67,445	
	Assessment Level	100%	100%							100%	100%	100%		100%	
	Market Value		X							X	X			X	
	Base Year		July							July	July			July	
	Use Value	X										X			
	Acquisition Value														
	Other Value Standard														
MB	Number of Parcels														
	Assessment Level	100%	100%	100%	100%			100%	100%	100%	100%		100%		
	Market Value	X	X	X	X			X	X	X	X		X		
	Base Year	1995	1995	1995	1995			1995	1995	1995	1995		1995		
	Use Value														
	Acquisition Value														
	Other Value Standard														
NB	Number of Parcels	20,000	10,000	6,000		100				250,000	5,000	40,000	20		
	Assessment Level	100%	100%	100%		100%				100%	100%		100%		
	Market Value	X	X	X		X				X	X				
	Base Year	Current	Current	Current		Current				Current	Current	Current	Current		
	Use Value														
	Acquisition Value														
	Other Value Standard											Legislated	Legislated		

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)														
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
NF	Number of Parcels	4,000	12,000	3,000		20				135,000	16,000	125	200	39,000	
	Assessment Level	100%	100%	100%		100%				100%		100%	100%	100%	
	Market Value	X	X	X		X				X		X	X	X	
	Base Year	1996	1996	1996		1996				1996	1996	1996	1996	1996	
	Use Value														
	Acquisition Value														
	Other Value Standard														
NT	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
NS	Number of Parcels						403,162								
	Assessment Level	100%													
	Market Value						X								
	Base Year						1996								
	Use Value														
	Acquisition Value														
	Other Value Standard														
ON	Number of Parcels														
	Assessment Level														
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
PE	Number of Parcels	10,000	4,000	1,000						41,000	4,000	1,000	2		
	Assessment Level														
	Market Value	X	X	X						X	X	X	X		
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														

ST/PV	Parcel Counts, Legal Level of Assessment, Value Standards, & Market Value Base Year by Property Classification (61)															
		Agricultural	Commercial	Industrial	Machinery & Equipment	Mining	Personal Property, Intangible	Personal Property, Tangible	Railroads	Residential Single-Family	Residential Multifamily	Timber	Utilities	Other	Other
PQ	Number of Parcels	109,272	71,238	13,597					1,099	1,692,684	383,273	49,224	30,083	453,972	
	Assessment Level	100%	100%	100%						100%	100%	100%	100%	100%	
	Market Value	X	X	X						X	X	X	X	X	
	Base Year	18 mo. prior	18 mo. prior	18 mo. prior					18 mo. prior	18 mo. prior	18 mo. prior	18 mo. prior	18 mo. prior	18 mo. prior	
	Use Value														
	Acquisition Value														
	Other Value Standard								Market						
SK	Number of Parcels	472,000	54,000		40,000	30			1,050	320,883			1,000	23,000	600
	Assessment Level	50-70%	100%	100%	100%	100%			70%	75%	85%		60%	70%	70%
	Market Value														
	Base Year														
	Use Value														
	Acquisition Value														
	Other Value Standard														
YT	Number of Parcels														
	Assessment Level	100%	100%	100%	100%					100%	100%		100%		
	Market Value	X													
	Base Year	Current													
	Use Value														
	Acquisition Value														
	Other Value Standard														

INDIANA ASSOCIATION OF REALTORS®, INC.

To: **Cheryl Musgrave, Commissioner, Indiana Department of Local Government Finance**
From: **Indiana Association of REALTORS®**
Date: **5 June 2008**
Subject: **Proposed Rule for General Reassessment of Property effective March 1, 2011**

There is much uncertainty with regard to how the proposed general reassessment rule for 2011 pay 2012 will impact homeowners, as well as all other classes of property. We at IAR are not confident that we can measure the impact. We're not sure anyone can accurately measure it in advance. To be clear and direct, we're not sure who will pay more and who will pay less – and how much more or less.

Our members, many of whom are professional appraisers, have expressed concern over the proposed changes and how those changes could impact different taxpayers. In a perfect world, designing an assessment system from a blank slate, IAR would advocate for a Market Value in Exchange standard. However, the lack of knowledge regarding potentially negative impacts of this rule leads us to recommend that the new rule NOT be adopted.

The Indiana Association of REALTORS® (IAR) has a long standing recognition of the importance and complexity of Indiana's property tax system and, in particular, the underlying assessment system and structure. In fact, the first two of IAR's long-standing "Guiding Principles for Property Tax Reform" are:

- IAR supports a market value standard for real estate assessment and a quality, professional, 21st century assessment system…

- IAR supports state enforcement of 21st Century data standards and corresponding technological capacity consistently applied and adhered to throughout the state.

The General Assembly achieved significant progress in the 2008 Session, consolidating assessment duties for at least 965 townships to the county assessor. Progress is being made on the training front, as well.

Indiana took the correct action when it adopted a market value based assessment standard for property taxes payable in 2003. However, the implementation of that standard has been problematic, primarily due to a dysfunctional assessment jurisdictional structure (1,008 township assessing jurisdictions) and the lack of resources (human and technological) dedicated to assessment administration at both the state and local levels. The trending process is a necessary part of a reliable market value assessment system, but it does not correct inconsistent and incorrect assessed values.

In 2008, there is still much to improve with regard to the equity of assessed values among taxpayers. In addition, there is still a lack of clarity regarding the impact of property tax policy changes made by the General Assembly over the past few years, including HEA 1001 – 2008. With the uncertainty concerning the impact of the new rule on HEA 1001 and on different classes of taxpayers, it is appropriate that the 2011 reassessment be conducted under the current rule. Finish fixing the assessment system and, once quality assessments are in place, it would be reasonable to consider a change in the assessment standard from market value in use to market value in exchange.

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THE COUNCIL
CITY OF INDIANAPOLIS
MARION COUNTY

M. JACQUELINE NYTES
Councillor, District 9

June 05, 2008

Cheryl Musgrave
Indiana Department of Local Government Finance
100 North Senate Avenue, N1058 (B)
Indianapolis, IN 46204

Dear Commissioner Musgrave:

I write today to oppose the proposed rules of the Department of Local Government Finance (DLGF) for the 2011 Reassessment. DLGF is proposing rule changes which threaten the financial viability of Low Income Housing Tax Credit ("LIHTC") properties under Section 42 of the Internal Revenue Code. These tax credit properties are critical to producing affordable housing and transforming neighborhoods in Indianapolis.

The federal government allocates Low Income Housing Tax Credits to states based on population. The Indiana Housing and Community Development Authority ("IHCDA") is the state agency that administers the LIHTC program in Indiana. IHCDA awards tax credits to developers on a competitive basis. Developers awarded tax credits syndicate those credits to investors in exchange for the equity investment needed to develop and construct the affordable housing.

Under the LIHTC program, tax credits are available for the development of affordable rental housing for individuals and families who earn no more than 60% of the Area Median Income ("AMI"). In fact, many LIHTC properties include units that are set aside for individuals and families earning far below 60% of AMI, including units reserved for 30% and 40% AMI households. In addition to the income restrictions applicable to these properties, rent levels are limited to amounts that are considered affordable at these income levels. Use of LIHTC requires each developer must covenant to maintain the property as affordable for up to 30 years, and those covenants are included in deed restrictions on the property.

Prior to receiving a final allocation of tax credits, every developer must demonstrate, through a set of comprehensive financial projections, the development's financial viability for at least 15 years. Because of the tenant income and rent limitations described above, LIHTC properties generally produce no net cash flow after the payment of operating expenses and debt. While rental revenues are restricted and therefore lower than rents for market-rate apartments, operating expenses for LIHTC properties are typically higher than their market-rate counterparts. Property taxes are a major expense of LIHTC properties; therefore, it is critical that property taxes remain

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stable on the properties throughout their life cycle. A dramatic increase in property taxes can and will cause an affordable LIHTC property to fail.

Under the current value-in-use standard, along with Ind. Code §§ 6-1.1-4-40 and 41, which require assessors to use the income approach in assessing the properties and prohibit assessors from including the intangible value of the federal income tax credits in the assessment, LIHTC properties are generally assessed and taxed at levels consistent with the 15-year financial projections prepared and submitted to IHCDA.

If the DLGF replaces the value-in-use standard with a strict market value-in-exchange standard incorporating the principle of "highest and best use," assessors may determine that the "highest and best use" of an LIHTC property is as a market rate property (i.e., a property without income or rent limitations). Specifically, assessors may use this change to argue that market rents, rather than the lower, restricted LIHTC rents, and market expense, rather than the higher LIHTC expenses, should be used, when applying the income approach. Using this artificial, market-level financial data, rather than the actual financial information for a LIHTC property, could increase the assessed value of LIHTC properties by 100% to 200%.

If the DLGF determines to incorporate a strict, market value standard in its proposed rules for the 2011 Reassessment, please consider a specific exemption for LIHTC properties similar to the exemption for farm land. This exemption will ensure access to affordable housing in Indianapolis.

Affordable housing is important to our city. It fulfills a basic human need for safe, clean, and secure shelter for those who otherwise could not afford to live in market rate property. It contributes to the well-being of both parents and children. Studies show that children living in stable housing perform better in school. Affordable housing helps to attract and retain employees – a selling point and a competitive advantage for current and potential employers. It supports the local workforce so that workers can live close to jobs. The construction of affordable housing helps to stimulate economic growth. A healthy mix of housing options, including affordable rental housing, provides opportunities for individuals and families to improve their economic situation and become contributing members of society.

In my district we have older properties such as CONSTITUTION GARDENS (Terry Keusch/Pioneer Development Services) which are expensive to upgrade but of great benefit to the neighborhood. The story of this property is an excellent example of how this all works. We have so few tools in Indiana to assist the development of affordable housing. As a member of the City County Council and a full time community development director I implore you to please protect this tool for future use.

Respectfully,

M. Jacqueline Nytes

M. Jacqueline Nytes

Wolter, Catherine

From: Rushenberg, Tim
Sent: Friday, June 06, 2008 8:37 AM
To: Wolter, Catherine
Subject: FW: Manual changes

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Beth Henkel [mailto:bhenkel@schuckitlaw.com]
Sent: Thursday, June 05, 2008 6:15 PM
To: Rushenberg, Tim
Cc: Chuck Ward
Subject: FW: Manual changes

See below for the very real problems with changing to March 1, 2011 as the valuation date: Equalization process and timeliness of getting the job done. It's a big problem.

Sorry to get your hopes up – because as an attorney who deals with the gap in appeals, I'd very much like to get away from it. But as one who must make workable policy, you need to think about this.

I propose to submit more formal written comment, giving you both sides, so that DLGF can wrestle with it and have a "logical outgrowth," which I think is the standard for rules. Before setting the March 1, 2011, date, as the tax attorneys want, and I would prefer, I suggest that you look at the timing statutes and the EQ rule for when the counties need to submit EQ studies to the DLGF and take that into consideration in setting the valuation date.

In other words, is it really do-able? I have to say, I was persuaded that it could not be done – hence, the 15 month lag in the trending rule.

I also talked with Chuck and he said that it may be doable to have a July 1 before the assessment date as the valuation date, use sales for 2 years before that, and then have the costs from the second quarter of 2010.

That represents a compromise, but it is really pushing it.

Many states use a different valuation date from assessment date because of this problem.

BHH

From: Chuck Ward [mailto:cward7@ameritech.net]
Sent: Thursday, June 05, 2008 5:10 PM
To: Beth Henkel
Subject: Re: Manual changes

This valuation date/assessment date has always been an issue. If the valuation date is the same as the assessment date, and cost manuals are not available until the last quarter preceding the assessment date, requiring software updates, which can be a problem, posting and verification of sales for the latter part of the year preceding the assessment date, then comparative analysis of the cost approach to calculate neighborhood factors, and finally an equalization study, all to be completed by the valuation date or close to it, we are effectively asking assessors to complete the most critical part of the assessment process in an extremely short time frame. This will probably cause further delays in completion of assessments, or in the interest of timely completion, inaccurate and inequitable assessments.

Beth Henkel <bhenkel@schuckitlaw.com> wrote:

> Frank, Kurt & David, and all
>
> I am being pressed to make recommendations about what the new Manual should say, assuming that market value in use is the standard – i.e., that they would not adopt value in exchange.
>
> Here's what Tim said:
>
> I'd like your written comments on clean up language you'd like to see made to the 2002 Manual. In other words, if the state kept value in use for the 2011 Manual, what changes would you make to the 2002 Manual? If you could get these to me by noon Friday, that'd be most helpful.
>
> I am reviewing Frank's suggested changes, and I like them – but have one significant change I would recommend as well.
>
> I tend to agree with Atherton and Stroble – I mean the DLGF -- that the valuation date and the assessment date should be the same, i.e., March 1, 2011. There are so many problems that occur due to the valuation date being a year in arrears, including that trending issue that the IBTR has so much trouble with, as do appraisers, Judge Fisher, etc.. An alternative I had pressed with the original draft of the trending rule was January 1 of the assessment year, using the cost schedules and cost data from the final quarter of the year before. I recall that you had concerns about that.
>
> I note now that you would keep the one year discrepancy, but would like your thoughts on the matter. Is there a way around your concerns, given that there are so many pesky issues that arise as a result of the gap?
>
> Also, if anyone else would like to weigh in on the gap issue, please do.
>
> Thanks.
>
> SCHUCKIT
> & ASSOCIATES PC
> ATTORNEYS AT LAW

Beth Henkel
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30th Floor Market Tower
10 West Market Street, Suite 3000
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Charles F. Ward
PSC Associates LLC
116 N. Mulberry St.
Muncie In 47305

Wolter, Catherine

From: Rushenberg, Tim
Sent: Friday, June 06, 2008 8:38 AM
To: Wolter, Catherine
Subject: FW: INDY-2162015-v1-Amendments_to_2011_Reassessment_Guidelines.DOC

Attachments: INDY-2162015-v1-Amendments_to_2011_Reassessment_Guidelines.DOC

INDY-2162015-v1-Amendments_to_...

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: Musgrave, Cheryl
Sent: Thursday, June 05, 2008 4:22 PM
To: Rushenberg, Tim
Subject: Fw: INDY-2162015-v1-Amendments_to_2011_Reassessment_Guidelines.DOC

----- Original Message -----
From: Bickel, Sandra K. <Sandra.Bickel@icemiller.com>
To: Musgrave, Cheryl
Sent: Thu Jun 05 15:56:26 2008
Subject: INDY-2162015-v1-Amendments_to_2011_Reassessment_Guidelines.DOC

Attached are suggested amendments to the Guidelines. It appears as though the drafters of the Guidelines did not delete the portions of the Guidelines inserted under the Tim Brook era that required taxpayers to submit evidence to assessor prior to the assessment, if they wanted their property to be assessed under any other method than the cost approach. When I found those provisions, I deleted them. I am sure there are others that I did not find.

I am not working for any particular client regarding market rate properties or any riverboat. However, I drafted an amendment that includes how the statute requires the property to be valued. I didn't do anything for the rental properties of 4 units or less because that provision is already in the Guidelines and the statute only says it is the "preferred" method.

I made the new provision that we discussed applicable to all affordable housing rather than just Sec. 42. I don't know all of the different programs, but hopefully, my description includes the various programs. The Sec. 42 provisions are from the Indiana Code.

There didn't seem to be any good location for the various provisions. There is the cost approach and depreciation. I don't really think of the income and sales approach as being depreciation. Does anyone?

Also, I did not convert this to PDF so it would be more convenient for you to change (or correct any typos).

****
****
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****
****

Amendment #1

Chapter 1

Mission of Reassessment

The mission of a reassessment is to inventory, verify, and value all real estate parcels. This process distributes the property tax burden in a uniform and equitable manner. The reassessment of real property includes the following:

- Land
- Buildings and fixtures situated on the land
- Appurtenances to land
- An estate in land or an estate, right, or privilege in mines located on the land or minerals located in the land if the estate, right, or privilege is distinct from the ownership of the surface of the land.

Residential, commercial and industrial land, and agricultural home sites are valued on values established by the assessing official. The primary method for valuing buildings and other improvements is the cost of replacing the improvement minus depreciation, but the comparable sales approach and capitalized income approach may be used by the assessor if shown to be applicable, **and must be used if required by law**.

Amendment #2

Chapter 6 **Commercial and Industrial Units**

* * *

~~There shall be a~~ **There is a** presumption that the reproduction or replacement cost determined by the prescribed schedules is the actual reproduction or replacement cost of the subject structure for purposes of determining true tax value. However, either the assessing officials or a taxpayer ~~shall be permitted to consider and~~ **may** use other relevant and reliable information to rebut ~~such~~ **the** presumption and establish the actual reproduction or replacement cost~~, if the information was readily available to the assessor and taxpayer at the time the assessed value was set~~.

Assessors must assess certain types of properties, using the capitalization of income or the sales comparison approach. Assessors must assess:

- **residential property that is:**

- leased for 30 days or more; and
- has four (4) or more units; and

- riverboats, as defined in IC 4-33-2-17

at the lowest of the of the three approaches to value:

- Cost approach that includes an estimated reproduction or replacement cost of buildings and land improvements as of the date of valuation together with estimates of the losses in value that have taken place due to wear and tear, design, and plan or neighborhood influences;
- Sales comparison approach, using data for generally comparable property.
- Income capitalization approach, using an applicable capitalization method and appropriate capitalization rates that are developed and used in computations that lead to an indication of value commensurate with the risks for the subject property use.

"Affordable Housing" means residential rental housing that is leased, under a federal or state program, at affordable rates, as determined by the United States Department of Housing and Urban Development, to individuals and families earning at or below 80% of the Area Median Income.

"Sec. 42 Property" means property developed and operating under Sec. 42 of the Internal Revenue Code.

In assessing Affordable Housing, assessors must use:

- actual or restricted rents, rather than market rents; and
- actual or affordable housing market expenses, rather than expenses for market rate residential rental property.

In assessing Sec. 42 Property, assessors shall use the capitalization of income approach to valuation. However, the assessment may not be less than the amount necessary to arrive at a tax liability for the property that is less than 5% of the previous year's total gross rent received from the rental of all units in the property. Under no circumstances may an assessor include in the assessed value the value of the federal income tax credits awarded under Section 42 of the Internal Revenue Code.

Amendment #3

Appendix F Commercial and Industrial Depreciation

Calculating Total Depreciation
for Income Producing Properties

* * *

Other more sophisticated versions of the capitalized income approach may be used to determine total depreciation if based on reliable and relevant data~~, if the data was readily available to the assessor at the time the assessed value was set~~.

Indiana Farm Bureau Inc.
225 S. East Street • P.O. Box 1290 • Indianapolis, IN 46206
Telephone: (317) 692-7851 • Toll Free: (800) 327-6287
FAX: (317) 692-7854 • www.infarmbureau.org

June 6, 2008

Commissioner Cheryl Musgrave
Indiana Department of Local Government Finance
1058 IGCN
Indianapolis, In 46204

Dear Commissioner Musgrave,

Please accept the following preliminary comments to the proposed 2011 Real Property Assessment Manual published in the Indiana Register which is the subject of a public hearing to be held on Monday, June 8, 2008.

I am forwarding a draft of suggested changes to the manual which basically maintain the definition of True Tax Value as Market-Value-In-Use rather than moving to the "Most Probable Sale Price" standard.

On Monday, June 8, 2008, on behalf of Indiana Farm Bureau, Inc. I will be focusing primarily on the following points:

- Article 10 of the Indiana Constitution states, "Section 1. (a) The General Assembly shall provide, by law, for a uniform and equal rate of property assessment and taxation and shall prescribe regulations to secure a just valuation for taxation of all property, both real and personal." The proposed manual implies an income approach for farmland based on its use, while moving all other property to market value defined as the "most probable sale price". Indiana Farm Bureau, Inc. is concerned that the difference of these standards will place Indiana's current farmland assessment method in constitutional jeopardy. The farmland base value derived by an income approach, while well justified and substantiated, is already misunderstood by many.

- Indiana has for decades valued all property for property tax purposes, not just real, based on the way it is used on the assessment date. Assessing property based on its current use is less subjective than "most probable sales price".

- Assessors are still refining skills needed for a market system. The proposed change could place the entire property tax system into a prolonged state of flux. Taxpayers need to see some demonstrated stability in the assessment and tax billing system.

- Indiana's system of property tax deductions and exemptions generally has a relationship to the way a property is used.

- HB 1001-2008 was enacted based on a real property assessment standard of Market-Value-In-Use. The ramifications of this legislation will emerge over the next few years and a wholesale change to the standard of assessment will cloud HB 1001's effects to taxpayers and lawmakers.

- There is no fiscal impact analysis available to the public that measures the effects of the proposed 2001 Real Property Assessment Manual on taxpayers. Agriculture as a class of taxpayers cannot afford to absorb more property tax shifts that could result from changing the assessment standard. If the law does not require such analysis, we will consider pursuing such legislation.

- The proposed Real Property Guidelines should include in Chapter 2, page 77 all examples and references from the February 12, 2008 memo issued by the Department of Local Government Finance entitled "Classification and Valuation of Agricultural Land."

We understand that the Department is required to adopt regulations by July 1st for the 2011 pay 2012 reassessment and look forward to working with you and your staff toward that end.

Sincerely,

Katrina A. Hall
Tax and Local Government Specialist
Indiana Farm Bureau, Inc.

TABLE OF CONTENTS

DRAFT

Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011 assessment date.

IC 6-1.1-31-6(c) provides that "With respect to the assessment of real property, true tax value does not mean fair market value. Subject to this article, true tax value is the value determined under the rules of the department of local government finance." ~~"true tax value is the value determined under the rules of the department of local government finance."~~ In the case of agricultural land, true tax value shall be the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance and according to IC 6-1.1-4-13. True tax value shall mean market-value-in-use ~~market value~~, which is defined as follows:

> ~~The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.~~[1]
>
> The market value-in-use of a property for its current use, as reflected by the utility received by the owner of a similar user, from the property.

The basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. The concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:

> Use Value: The value a specific property has for a specific use.1
>
> 1 Appraisal Institute, The Dictionary of Real Estate Appraisal, p. 383 (1993)

The true tax value of property under this definition shall be determined as of the applicable assessment date.

Three standard approaches are used to determine market value. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, p. 177 (2002).

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an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization. Each of these approaches is appropriate for determining the true tax value of property under the definition provided in this manual. The approaches to determining market value and the reconciliation of such approaches shall be applied in accordance with generally recognized appraisal principles. Standard appraisal and valuation texts such as those published by the Appraisal Institute and the International Association of Assessing Officers (IAAO) are acceptable sources for determining such principles.

The Guidelines adopted by the Department of Local Government Finance provide procedures and schedules that are acceptable in determining true tax value under the cost approach. Assessing officials may also consider other relevant information in applying the cost approach and may also use either the sales comparison approach or the income approach, or both, in determining true tax value if they are applicable to the type of property being assessed and if relevant and reliable data is available to support the use of such approaches.

An assessment determined by an assessing official in accordance with this manual shall be presumed to be correct. Any evidence relevant to the true tax value of the property as of the assessment date may be presented to rebut the presumption of correctness of the assessment. Such evidence may include an appraisal prepared in accordance with generally recognized appraisal standards. However, there is no requirement that an appraisal be presented either to support or to rebut an assessment. Instead, the validity of the assessment shall be evaluated on the basis of all relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether, in light of the relevant evidence, it reflects the property's true tax value as defined in this manual.

The county assessor shall also utilize assessment studies, as provided in a separate rule (50 IAC 14), as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. When deemed necessary to equalize assessments between or within townships or between classes of property, or when deemed necessary to raise or lower assessments within a county or any part thereof to the level

prescribed by law, the county assessor shall apply a percentage increase or decrease to individual assessments to attain just and equal assessments.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

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Definitions

Definitions preceded by ■ are taken from the publication, **Glossary for Property Appraisal and Assessment**, copyright © 1997 by the International Association of Assessing Officers (IAAO), 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217. Definitions preceded by ▼ are those developed by the Department of Local Government Finance. Words in bold print in the definition refer to other words defined in this section. Definitions preceded by • are those from the *2007 IAAO Standard on Ratio Studies*, Version 17.03, approved by IAAO Executive Board on July 21, 2007.

Appraisal ■ (1) The act of estimating the money value of property. (2) The money value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services.

Appraisal Date ■ The date as of which a property's value is estimated. ▼ The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Appraisal Methods ■ The three methods of appraisal, that is, the **cost approach, income approach**, and **sales comparison approach** as defined in the Overview of Mass Appraisal Methods and Models section of this rule. ▼ Any method of estimating value.

Arithmetic Mean ■ See **mean**.

Array ■ An ordered arrangement of data, such as a listing of sales ratios, in order of magnitude. ▼A ranking of data in order of value. May be either in ascending (lowest to highest) or descending (highest to lowest) order. Also referred to as a rank order.

Assess ■ To value property officially for the purpose of taxation.

Assessed Value ■ The dollar amount for a property entered into the assessment roll. ▼May differ from **true tax value** if a fractional assessment system exists. Beginning with the 2001 assessment year, the **assessed value** equals 100% of the **true tax value**.

Assessment ■ (1) In general, the official acts of determining the amount of the tax base. (2) As applied to property taxes, the official act of discovering, listing, and appraising property, whether performed by an assessor, property tax assessment board of appeals or a court. (3) The value placed on property in the course of such act. See **assess**.

Assessment Ratio (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all

	taxable property in a jurisdiction. See assessment level.
Assessment-Appraisal Ratio	■ The ratio of the **assessed value** of a property to an independent appraisal.
Assessment Date	▼March 1st of any year.
Assessment Equity	■ The degrees to which assessments bear a consistent relationship to **market value**.
Assessment Level	■ The common or overall ratio of **assessed values** to **market values**.
Assessment Ratio Study	■ An investigation intended to determine the **assessment ratio** and **assessment equity**. (note the assessment ratio was not present in the 2011 Final Draft Manual)
Assessment-Sale Price Ratio	■ The ratio of the assessed value to the **sale price** (or adjusted sale price) of a property.
Average	■ The arithmetic **mean**.
Central Tendency	■ (1) The tendency of most kinds of data to cluster around some typical or central value, such as the mean, median, or mode. (2) By extension, any or all such statistics.
Coefficient of Dispersion	■ The **average deviation** of a group of numbers from the on **median** expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.
Comparable Sales	■ Recently sold properties that are similar in important respects to a property being appraised; sometime referred to as "comparables".
Dispersion	■ The degree to which data is distributed either tightly or loosely around a measure of central tendency.
Equalization	■ The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is appraised at the same ratio or as required by law.
Level of Assessment	■ See **assessment level** and **assessment ratio**.
Lien Date	■ The date on which an obligation, such as a property tax bill (usually in an amount yet to be determined), attaches to a property and the property becomes security against its payment.
Market Value	The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a

	competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.
Mass Appraisal	■ The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing
Mean	■ A **measure of central tendency**. The result of adding all the values of a variable and dividing the number of values.
Measures of Central Tendency	■ A single point in a range of observations around which the observations tend to cluster. The three most commonly used **measures of central tendency** are the **mean, median**, and **mode**.
Median	■ A **measure of central tendency**. When the number of items is odd, the value of the middle item when the items are arrayed by size. When the number of items is even, the arithmetic average of the two central items when the items are similarly arranged. Thus, a positional average that is not affected by the size of extreme values.
Mode	■ The most frequently occurring observation in an array.
Model	■ (1) A representation of how something works. (2) For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and variables representing factors of supply and demand
Property Wealth	■ The abundance of economic utility realized from property rights.
Ratio Study	■ A study of the relationship between appraised or **assessed values and market values**. Indicators of market values may be either sales (**sales ratio study**) or independent "expert" appraisals (appraisal ratio study). Of common interest in ratio studies are the level uniformity of the **appraisal or assessments**.
Reassessment	■ The re-listing and reappraisal of all property in a jurisdiction or portion thereof. Also called reappraisal or revaluation.
Replacement Cost	■ The cost, including material, labor, and overhead, which would be incurred in constructing an improvement having the same utility to its owner as a subject improvement.
Reproduction Cost	■ The cost of constructing a new improvement, reasonably identical with the subject improvement, using the same materials, construction standards, design, and quality of workmanship.
Sales Chasing	• The practice of using the sale of a property to trigger a reappraisal of

that property at or near the selling price. If sales with such appraisal adjustments are used in a ratio study, the practice uses invalid uniformity results and causes invalid appraisal level results, unless similar unsold parcels are reappraised by a method that produces an appraisal level for unsold properties equal to the appraisal level of sold properties. By extension, any practice that causes the analyzed sample to misrepresent the assessment performance for the entire population as a result of acts by the assessor's office. A subtle, possibly inadvertent, variety of sales chasing occurs when the recorded property characteristics of sold properties are differentially changed relative to unsold properties. Then the application of a uniform valuation model to all properties results in the recently sold properties being more accurately appraised than the unsold ones.

Sale Price ■ Amount paid for an item.

Sales Ratio Study ■ A **ratio study** that uses sales prices as a proxy for market values.

Single-Property Appraisal ■ Appraisal of properties one at a time. Contrasts with **Mass Appraisal**.

Statistics ■ (1) Numerical descriptions calculated from a sample. For example, the **median, mean**, or **coefficient of dispersion**. Statistics are used to estimate corresponding measures, termed parameters, for the population. (2) The science of studying numerical data systematically and of presenting the results usefully

Subject Property ■ The property being appraised.

Taxable Value ■ The appraised value minus all applicable exemptions, deductions, and abatements. Property taxes are levied on taxable value. ▼ In Indiana, the taxable value is referred to as net assessed value.

True Tax Value ■ In the case of agricultural land, the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. True Tax Value means ~~In the case of all other property~~, market value-in-use as defined in this manual.

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Use Value See Value-in-Use; synonymous with Market Value-in-Use.

Valuation Date ■ The date as of which a property's value is estimated. ▼The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Value-in-Use The value of property for a specified use. The concept that holds value to be inherent in property itself; that is, the value is based on the ability of the asset to produce revenue or utility through ownership. The value a

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specific property has for a specific purpose.

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Overview of Mass Appraisal Methods and Models

The purpose of this section of the rule is to give the assessing official an introduction to, and an overview of, mass appraisal methods and models. It is not the intent to be all-inclusive or to be the definitive source of information on the topic. Those desiring more detail on the subject are referred to the International Association of Assessing Officers textbook, **Mass Appraisal of Real Property**; copyright © 1999 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217.

As defined by the International Association of Assessing Officers and in the Definitions section of this rule, mass appraisal is, "The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing." This definition can be compared to single-property appraisal, which is the process of valuing an individual property as of a given date. Although the two differ in the areas of data analysis and the degree of quality control required, they are similar in the steps applied to arrive at a final conclusion of value. Both are applied economic theory and have as a foundation various economic principles and theories.

Mass appraisal and single-property appraisal methods are based on what are known as the three approaches to value. These approaches are the cost approach, the sales comparison approach, and the income approach. They are three distinct ways of looking at property and estimating its value. The approaches to value offer three different alternatives a potential buyer has when deciding to make an offer on a property.

Cost Approach

The cost approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute parcel of vacant land and construct an equally desirable substitute improvement. In this approach, the appraiser calculates the cost new of the improvements, subtracts from it accrued depreciation to arrive at an estimate of the improvement's value, and then adds the value of the land as if vacant to arrive at an estimate of the subject property's total value. It can be expressed in a formula as follows:

$$(RCN - D) + LV = V$$

Where:
- RCN = Replacement/Reproduction Cost New of the Improvements
- D = Accrued Depreciation
- LV = Land Value, as if vacant
- V = Total Property Value

Sales Comparison Approach

The sales comparison approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute improved property already existing in the market place. In this approach, the appraiser locates sales of comparable improved properties and adjusts the selling prices to reflect the subject property's total value. The adjustments are the quantification of characteristics in

properties that cause prices paid to vary. The appraiser considers and compares all possible differences between the comparable properties and the subject property that could affect value. Objectively verifiable market evidence should be used to determine these items. Items, which are identified as having an influence on value in the market place, are then quantified by the use of their contributory values. These contributory values then become the adjustments which are added to, or subtracted from, the selling price of the comparable property.

The sales comparison approach can be expressed in a formula as follows:

$$SP \pm Adj = V$$

Where:
- SP = Sale Price of a Comparable Improved Property
- ± = Plus or minus
- Adj = Adjustments
- V = Total Property Value

Income Approach

The income approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute investment that offers the same return and risk as the subject property. It considers the subject property as an investment and, to that end, its value is based on the rent it will produce for the owner. It can be expressed in a formula as follows:

$$V = I \div R$$

Where:
- V = Value
- I = Income
- R = Rate

Using the Three Approaches

All three approaches to value are the basis for any single-property or mass appraisal "model" used by an appraiser. A "model" is defined by the International Association of Assessing Officers, and in the Definition section of this rule, as "A representation of how something works; for purposes of appraisal, a representation (in words or an equation) that explains the relationship between value ... and variables representing factors of supply and demand." The appraisal model selected and used by the appraiser can be thought of as the formula that is mathematically processed to arrive at an estimate of value for a property. Therefore, the formulas given for the three approaches to value above could be referred to as "models".

These general models of the three approaches to value outlined above can be refined and expanded through a process referred to as model specification. Model specification is the designing of a model that is based upon appraisal theory and attempts to reflect the actions of buyers and sellers in the market. Specification of a model includes choosing variables to be included in the formula and mathematically defining their relationship to each other and the property's value.

For example, the specification of a simple model is expressed below:

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IV + LV = V

Where: IV = Improvement Value

LV = Land Value

V = Total Property Value

This model could be refined as follows:

(SF, X $, /SF) + (SFL X $L/SF) = V

Where:
- SF = Improvement area in square feet
- $/SF = Unit price of the improvement per square foot
- SF_L = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

The model could be even further refined as follows:

NHF X [(SF, X $,/SF) + ($SF_L$ X $L/SF)] = V

Where:
- NHF = Neighborhood Factor
- SF = Improvement area in square feet
- $/SF = Unit price of the improvement per square foot
- SF_L = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

As can be seen from the above demonstration, models can become very sophisticated in their attempt to reflect market conditions.

There are a multitude of models that have been developed for the mass appraisal process by assessing officials, vendors, and academics. Any of these models may be capable of producing accurate and uniform values for a particular class of property within a specified geographic area. However, not all models can be used for every type of property or in every jurisdiction nor do they all offer ease in administration. The market dictates what type of models should be used and administrative constraints, such as knowledge of the user and budget concerns, dictate what models can be used.

Whatever mass appraisal method(s) and model(s) a county chooses, they must be capable of producing accurate and uniform values throughout the jurisdiction and across all classes of property.

Minimum Data Requirements

Any mass appraisal method must have certain types of data available. These minimum data requirements are intended to allow taxpayers to understand the valuation process and provide the necessary information for the Department of Local Government Finance to perform its duties. These requirements are not intended to be restrictive but only to standardize the minimum data each county must have in its mass appraisal method. Any additional data a county wishes to collect is allowed under this rule.

Property Specific Characteristics:

- Parcel Number
- County
- Township
- Corporation
- Rectangular Survey Section #
- Subdivision/Plat Name
- Ownership information
- Street Address
- Property Class Code (See Appendix A)
- Taxing District #
- Neighborhood Code (residential only)
- Land Type Code (See Appendix B)
- Land dimensions
- Land Size
- Improvement(s) Sketch with labels
- Improvement Photograph (principal structure)
- Year of Construction for all improvements
- Condition Rating of all improvements
- Sales History with sales prices, annotated for any adjustments
- Assessment History from the last reassessment forward; broken down by land, improvement, and total

Comparative Data:

- Copies of all sales disclosure statements

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Assessment Ratio Studies and Equalization

The accuracy and uniformity of the assessments produced by any mass appraisal method shall be measured by an assessment ratio study. Should the results of the study show the assessments to be inaccurate and/or non-uniform, equalization shall be the remedy.

In addition to the assessment ratio study, the Department of Local Government Finance may apply other statistical tests and analysis that it may develop to determine whether the assessments are accurate, uniform, and equitable.

Assessment Ratio Studies

A ratio study is a measure of the performance of a mass appraisal method. It compares the assessing official's estimate of value with objectively verifiable data. The objectively verifiable data used in the comparison comes from selling prices and single-property appraisals prepared independent of the assessment process. Sales based ratio studies are preferred because they are less expensive and are more objective than independent single property appraisals.

The ratios used in assessment ratio studies are computed on individual properties by dividing the assessing official's estimate of assessed value, for the property by the sale price, or by an appraised value developed by single-property appraisal methods. If sale price was used, the ratio would be known as the assessment-sale price ratio. If appraised value was used, the ratio would be known as the assessment-appraisal ratio. The formula for an assessment-sale price ratio follows:

$$A/S = (AV) \div SP$$

Where: A/S = Assessment-sale Price Ratio
AV = Assessed Value
SP = Sale Price

*This variable is excluded for non-owner occupied property

For example, assume a property sold for $104,000 and was assessed for $79,000Applying the above formula would yield the following:

$$A/S = (\$79,000) \div \$104,000$$

$$A/S = 0.7596 \text{ Rounded to } 0.76$$

In this example, the assessment-sale price ratio would be 0.76, which is the equivalent of seventy-six percent (76%). In other words, this property is assessed at seventy-six (76%) of the value it should be assessed. Ideally, all assessment ratios should be at one hundred percent (100%) in order to be considered accurate.

The ratio study uses assessment ratios as the basic data to measure the performance of a mass appraisal method. It statistically measures the accuracy and uniformity of the assessments produced by the mass appraisal method. Accuracy is measured through the application of statistics by measures of central tendency. Uniformity is measured through the application of statistics by measures of relative dispersion.

The statistical measure of central tendency most often used in assessment ratio studies is the median. The statistical measure of relative dispersion most often used is the coefficient of dispersion about the median. Both of these measures are defined in the definitions section of this rule.

The median assessment ratio reveals the "average" level at which property is assessed. If, for example, the median assessment ratio for single-family homes in a particular neighborhood is 0.86 (86%) the conclusion can be drawn that, on the average, all homes are assessed at 86% of their value. If the assessment level is supposed to be 100% for this neighborhood, then the ratio study has shown that single-family homes are underassessed and, therefore, not accurately assessed. Ideally, the median should be at 1.00 (100%). This means all properties are, on the average, accurately assessed. But since mass appraisal methods produce only estimates of value and are not an exact science, the actual median assessment ratio may vary from the ideal.

The coefficient of dispersion reveals the "average" difference between individual assessment ratios and the median assessment ratio. It demonstrates the typical amount of deviation the individual assessment ratios have from the median. If, for example, the coefficient of dispersion about the median ratio for single-family homes in a particular neighborhood is 0.18 (18%) the conclusion can be drawn that the individual assessment ratios deviate, on the average, plus or minus 18% from the median assessment ratio. Ideally, the coefficient of dispersion should be at 0 (0%). This means all properties are assessed at the level shown by the median and, therefore, no deviation is present. But, like the median assessment ratio, the actual coefficient of dispersion may vary from the ideal.

Equalization

Standards for evaluating the accuracy and uniformity of mass appraisal methods have been developed by the assessing community. These standards state the overall level of assessment, as determined by the median assessment ratio, should be within five ~~ten~~ percent (5%) ~~(10%)~~ of the legal level. In Indiana, this means the median assessment ratio within a jurisdiction should fall between 0.95 (95%) ~~0.90 (90%)~~ and 1.05 (105%) ~~1.10 (110%)~~ in order to be considered accurate. This standard of five ~~ten~~ percent (5%) ~~(10%)~~ on either side of the value provides a reasonable and constructive range for measuring mass appraisal methods. (Comment: 10% on either side of a value very likely places neighbors at 20% difference in tax burden. This does not provide adequate "fairness".)

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These standards also state the coefficient of dispersion about the median should be at 0.15 (15%) or less for single-family residences and 0.20 (20%) or less for other classes of property. If the coefficient of dispersion is at, or below, these standards, then the mass appraisal method has produced uniform assessments. However, if the coefficient of dispersion is above these

standards, then the mass appraisal method has produced non-uniform assessments. (Comment: this standard may need to be lower also.)

Whenever inaccurate and/or non-uniform assessments are present, the county assessor and the Department of Local Government Finance are required to equalize assessments. Equalization of assessments is the process of ensuring all property is, on the average, accurately and uniformly assessed. The equalization process can be accomplished in two ways; through the application of factors to correct the accuracy and through reassessment to correct non-uniformity.

The following decision chart shows when each of the equalization procedures are appropriate:

Median Assessment Ratio	Coefficient of Dispersion	Action Required
Accurate ~~(0.90 to 1.10)(.95 to 1.05)~~	Uniform (=< 0.15)	Nothing
Accurate ~~(0.90 to 1.10)(.95 to 1.05)~~	Non-uniform	Reassess
Inaccurate	Uniform (-< 0.15)	Apply Factors
Inaccurate	Non-uniform	Reassess

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More details on assessment ratio studies and equalization will be found in the equalization rule, 50 IAC 14.

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Appendix A – Property Class Codes

Table A-1. Property Class Codes

Code	Class of Property
1	Agricultural taxable land and improvements used primarily for agricultural purposes
2	The legal description is being valued for severed mineral rights at a flat value of sixty dollars ($60) per acre
3	Industrial taxable land and improvements used primarily for manufacturing, processing, or refining foods and materials
4	Commercial taxable land and improvements used for general commercial and recreational purposes
5	Residential taxable land and improvements used primarily for residential purposes
6	Exempt property
8	Taxable land and improvements owned by a public utility company

Table A-2. Property Subclass Codes

Class Code 1 **Agricultural taxable land and improvements used primarily for agricultural purposes**

00	Vacant land	03	Dairy farm	07	Tobacco farm	11	Beef farm
01	Cash grain/general farm	04	Poultry farm	08	Nursery	20	Timber
02	Livestock other than dairy and poultry	05	Fruit & nut farm	09	Greenhouses	99	Other agricultural use
		06	Vegetable farm	10	Hog farm		

Class Code 2 **The legal description is being valued for severed mineral rights at a flat value of sixty dollars ($60) per acre**

00	Severed mineral rights

Class Code 3 **Industrial taxable land and improvements used primarily for manufacturing, processing, or refining foods and materials**

00	Vacant land	30	Medium manufacturing and assembly	46	Research and development facility	70	Small shop
10	Food and drink processing facility	40	Light manufacturing and assembly	50	Industrial warehouse	80	Mine or quarry
20	Foundries and heavy manufacturing	45	Industrial office	60	Industrial truck terminal	85	Landfill
						90	Grain elevator
						99	Other industrial structure

Class Code 4 **Commercial taxable land and improvements used for general commercial and recreational purposes**

00	Vacant land	25	Neighborhood shopping center (Strip center)	44	Full service banks	60	Theater
01	4 to 19 family apartments	26	Community shopping center	45	Savings and loans	61	Drive-in theater
02	20 to 39 family apartments	27	Regional shopping center	47	Office building (1 or 2 story)	62	Golf range or miniature course
03	40 or more family apartments	28	Convenience market	48	Office building (3 stories or more, walkup)	63	Golf course or country club
10	Motel or tourist cabins	29	Other retail structures	49	Office building (3 stories or more, elevator)	64	Bowling alley
11	Hotel	30	Restaurant, cafeteria, or bar	50	Convenience market with gasoline sales	65	Lodge hall
12	Nursing home and private hospital	31	Franchise-type restaurant	51	Convenience market / franchise-type restaurant with gasoline sales	66	Amusement park
15	Mobile home park	35	Drive-in restaurant	52	Service station	67	Health club
16	Commercial camp ground	39	Other food service	53	Car wash	68	Ice rink
19	Other commercial housing	40	Dry clean plant or laundry	54	Auto sales and service	69	Riverboat gaming resort
20	Small detached retail of less than 10,000 square feet	41	Funeral home	55	Commercial garage	80	Commercial warehouse
21	Supermarket	42	Medical clinic or offices	56	Parking lot or structure	81	Commercial mini-warehouse
22	Discount and junior department store	43	Drive-up/walk-up bank only			82	Commercial truck terminal
24	Full line department store					90	Marine service facility
						95	Marina
						99	Other commercial structures

Class Code 5 **Residential taxable land and improvements used primarily for residential purposes**

00	Vacant platted lot	15	One family dwelling on unplatted land of 40 or more acres	32	Three family dwelling on unplatted land of 10 to 19.99 acres	44	Mobile or manufactured home on unplatted land of 30 to 39.99 acres
01	Vacant unplatted land of 0 to 9.99 acres	20	Two family dwelling on a platted lot	33	Three family dwelling on unplatted land of 20 to 29.99 acres	45	Mobile or manufactured home on unplatted land of 40 or more acres
02	Vacant unplatted land of 10 to 19.99 acres	21	Two family dwelling on unplatted land of 0 to 9.99 acres	34	Three family dwelling on unplatted land of 30 to 39.99 acres	50	Condominium unit on a platted lot
03	Vacant unplatted land of 20 to 29.99 acres	22	Two family dwelling on unplatted land of 10 to 19.99 acres	35	Three family dwelling on unplatted land of 40 or more acres	51	Condominium unit on unplatted land of 0 to 9.99 acres
04	Vacant unplatted land of 30 to 39.99 acres	23	Two family dwelling on unplatted land of 20 to 29.99 acres	40	Mobile or manufactured home on a platted lot	52	Condominium unit on unplatted land of 10 to 19.99 acres
05	Vacant unplatted land of 40 or more acres						
10	One family dwelling on a platted lot						

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Class Code 5 *continued*

11	One family dwelling on unplatted land of 0 to 9.99 acres	24	Two family dwelling on unplatted land of 30 to 39.99 acres	41	Mobile or manufactured home on unplatted land of 0 to 9.99 acres	53	Condominium unit on unplatted land of 20 to 29.99 acres
12	One family dwelling on unplatted land of 10 to 19.99 acres	25	Two family dwelling on unplatted land of 40 or more acres	42	Mobile or manufactured home on unplatted land of 10 to 19.99 acres	54	Condominium unit on unplatted land of 30 to 39.99 acres
13	One family dwelling on unplatted land of 20 to 29.99 acres	30	Three family dwelling on a platted lot	43	Mobile or manufactured home on unplatted land of 20 to 29.99 acres	55	Condominium unit on unplatted land of 40 or more acres
14	One family dwelling on unplatted land of 30 to 39.99 acres	31	Three family dwelling on unplatted land of 0 to 9.99 acres			99	Other residential structures

Class Code 6 **Exempt property**

00	Exempt property owned by the United States of America	40	Exempt property owned by a municipality	80	Exempt property owned by a charitable organization that is granted an exemption	86	Church, chapel, mosque, synagogue, tabernacle, or temple that is granted an exemption
10	Exempt property owned by the State of Indiana	50	Exempt property owned by a board of education	85	Exempt property owned by a religious organization that is granted an exemption	90	Exempt property owned by a cemetery organization that is granted an exemption
20	Exempt property owned by a county	60	Exempt property owned by a park district			99	Other exempt property owned by an organization that is granted an exemption
30	Exempt property owned by a township	70	Exempt property owned by a private academy or college				

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Class Code 8 **Taxable land and improvements owned by a public utility company**

00	Locally assessed vacant utility land	30	Locally assessed property owned by a pipeline company	50	Locally assessed property owned by a sewage company	61	State assessed property owned by a telephone, telegraph, or cable company that constitutes a part of any right-of-way of the distribution system
10	Locally assessed property owned by a bus company	31	State assessed property owned by a pipeline company that constitutes a part of any right-of-way of the distribution system	51	State assessed property owned by a sewage company that constitutes a part of any right-of-way of the collection system	70	Locally assessed property owned by a water distribution company
20	Locally assessed property owned by a light, heat, or power company	40	Locally assessed property owned by a railroad company	60	Locally assessed property owned by a telephone, telegraph, or cable company	71	State assessed property owned by a water distribution company that constitutes a part of any right-of-way of the distribution system
21	State assessed property owned by a light, heat, or power company that constitutes a part of any right-of-way of the light, heat, or power company	41	State assessed operating property owned by a railroad company				

Note: Under class code 8, subclass codes 21, 31, 41, 51, 61, and 71 have a zero value at the local level.

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Appendix B – Land Type Codes

Table B-1. Land Type and Sub-type Codes

Code	Type of Land			
1 Commercial and Industrial Land				
1 Primary	2 Secondary	3 Undeveloped Useable	4 Undeveloped Unusable	
2	Classified Land			
3	Undeveloped Land			
4	Tillable Land			
5	Non-tillable Land			
6	Woodland			
7	Other Farmland			
8 Agricultural Support Land				
1 Legal Ditch	2 Public Road	3 Utility Transmission Tower		
9 Homesite				
1 Residential Excess Acres	2 Agricultural Excess Acres			

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Wolter, Catherine

From: Rushenberg, Tim
Sent: Monday, June 09, 2008 8:46 AM
To: Wolter, Catherine
Subject: FW: Indiana Farm Bureau, Inc. Comments on Proposed 2001 Real Property Assessment Manual
Attachments: FINAL -- Assessment Manual 3 11 2008 (2) w farm bureau comments.doc; Ind Farm Bureau comments DLGF Manual 6 8 2008 letterhead.pdf; FINAL -- Assessment Manual 3 11 2008 (2) w farm bureau comments.pdf

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Hall, Katrina [mailto:khall@infarmbureau.org]
Sent: Friday, June 06, 2008 6:07 PM
To: Rushenberg, Tim; Musgrave, Cheryl
Subject: Indiana Farm Bureau, Inc. Comments on Proposed 2001 Real Property Assessment Manual

Cheryl and Tim,

I am attaching preliminary comments and my crude attempt to edit the 2011 proposed manual. I hope you can tell which way I think the regulation and guidelines should go. Thanks for your attention. See you Monday.

Katrina A. Hall
Tax and Local Government Specialist
Indiana Farm Bureau, Inc.
225 S. East Street
Indianapolis, In 46206
317-692-7805 Office
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Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011 assessment date.

IC 6-1.1-31-6(c) provides that "With respect to the assessment of real property, true tax value does not mean fair market value. Subject to this article, true tax value is the value determined under the rules of the department of local government finance." ~~"true tax value is the value determined under the rules of the department of local government finance."~~ In the case of agricultural land, true tax value shall be the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance and according to IC 6-1.1-4-13. True tax value shall mean market-value-in-use ~~market value~~, which is defined as follows:

> ~~The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.~~[1]
>
> The market value-in-use of a property for its current use, as reflected by the utility received by the owner of a similar user, from the property.

The basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. The concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:

> Use Value: The value a specific property has for a specific use.1
>
> 1 Appraisal Institute, The Dictionary of Real Estate Appraisal, p. 383 (1993)

The true tax value of property under this definition shall be determined as of the applicable assessment date.

Three standard approaches are used to determine market value. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, p. 177 (2002).

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an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization. Each of these approaches is appropriate for determining the true tax value of property under the definition provided in this manual. The approaches to determining market value and the reconciliation of such approaches shall be applied in accordance with generally recognized appraisal principles. Standard appraisal and valuation texts such as those published by the Appraisal Institute and the International Association of Assessing Officers (IAAO) are acceptable sources for determining such principles.

The Guidelines adopted by the Department of Local Government Finance provide procedures and schedules that are acceptable in determining true tax value under the cost approach. Assessing officials may also consider other relevant information in applying the cost approach and may also use either the sales comparison approach or the income approach, or both, in determining true tax value if they are applicable to the type of property being assessed and if relevant and reliable data is available to support the use of such approaches.

An assessment determined by an assessing official in accordance with this manual shall be presumed to be correct. Any evidence relevant to the true tax value of the property as of the assessment date may be presented to rebut the presumption of correctness of the assessment. Such evidence may include an appraisal prepared in accordance with generally recognized appraisal standards. However, there is no requirement that an appraisal be presented either to support or to rebut an assessment. Instead, the validity of the assessment shall be evaluated on the basis of all relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether, in light of the relevant evidence, it reflects the property's true tax value as defined in this manual.

The county assessor shall also utilize assessment studies, as provided in a separate rule (50 IAC 14), as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. When deemed necessary to equalize assessments between or within townships or between classes of property, or when deemed necessary to raise or lower assessments within a county or any part thereof to the level

prescribed by law, the county assessor shall apply a percentage increase or decrease to individual assessments to attain just and equal assessments.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

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Definitions

Definitions preceded by ■ are taken from the publication, **Glossary for Property Appraisal and Assessment**, copyright © 1997 by the International Association of Assessing Officers (IAAO), 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217. Definitions preceded by ▼ are those developed by the Department of Local Government Finance. Words in bold print in the definition refer to other words defined in this section. Definitions preceded by • are those from the *2007 IAAO Standard on Ratio Studies*, Version 17.03, approved by IAAO Executive Board on July 21, 2007.

Appraisal ■ (1) The act of estimating the money value of property. (2) The money value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services.

Appraisal Date ■ The date as of which a property's value is estimated. ▼ The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Appraisal Methods ■ The three methods of appraisal, that is, the **cost approach, income approach**, and **sales comparison approach** as defined in the Overview of Mass Appraisal Methods and Models section of this rule. ▼ Any method of estimating value.

Arithmetic Mean ■ See **mean**.

Array ■ An ordered arrangement of data, such as a listing of sales ratios, in order of magnitude. ▼A ranking of data in order of value. May be either in ascending (lowest to highest) or descending (highest to lowest) order. Also referred to as a rank order.

Assess ■ To value property officially for the purpose of taxation.

Assessed Value ■ The dollar amount for a property entered into the assessment roll. ▼May differ from **true tax value** if a fractional assessment system exists. Beginning with the 2001 assessment year, the **assessed value** equals 100% of the **true tax value**.

Assessment ■ (1) In general, the official acts of determining the amount of the tax base. (2) As applied to property taxes, the official act of discovering, listing, and appraising property, whether performed by an assessor, property tax assessment board of appeals or a court. (3) The value placed on property in the course of such act. See **assess**.

Assessment Ratio (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all

	taxable property in a jurisdiction. See assessment level.
Assessment-Appraisal Ratio	■ The ratio of the **assessed value** of a property to an independent appraisal.
Assessment Date	▼March 1st of any year.
Assessment Equity	■ The degrees to which assessments bear a consistent relationship to **market value**.
Assessment Level	■ The common or overall ratio of **assessed values** to **market values**.
Assessment Ratio Study	■ An investigation intended to determine the **assessment ratio** and **assessment equity**. (note the assessment ratio was not present in the 2011 Final Draft Manual)
Assessment-Sale Price Ratio	■ The ratio of the assessed value to the **sale price** (or adjusted sale price) of a property.
Average	■ The arithmetic **mean**.
Central Tendency	■ (1) The tendency of most kinds of data to cluster around some typical or central value, such as the mean, median, or mode. (2) By extension, any or all such statistics.
Coefficient of Dispersion	■ The **average deviation** of a group of numbers from the on **median** expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.
Comparable Sales	■ Recently sold properties that are similar in important respects to a property being appraised; sometime referred to as "comparables".
Dispersion	■ The degree to which data is distributed either tightly or loosely around a measure of central tendency.
Equalization	■ The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is appraised at the same ratio or as required by law.
Level of Assessment	■ See **assessment level** and **assessment ratio**.
Lien Date	■ The date on which an obligation, such as a property tax bill (usually in an amount yet to be determined), attaches to a property and the property becomes security against its payment.
Market Value	The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a

competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

Mass Appraisal ■ The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing

Mean ■ A **measure of central tendency**. The result of adding all the values of a variable and dividing the number of values.

Measures of Central Tendency ■ A single point in a range of observations around which the observations tend to cluster. The three most commonly used **measures of central tendency** are the **mean, median**, and **mode**.

Median ■ A **measure of central tendency**. When the number of items is odd, the value of the middle item when the items are arrayed by size. When the number of items is even, the arithmetic average of the two central items when the items are similarly arranged. Thus, a positional average that is not affected by the size of extreme values.

Mode ■ The most frequently occurring observation in an array.

Model ■ (1) A representation of how something works. (2) For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and variables representing factors of supply and demand

Property Wealth ■ The abundance of economic utility realized from property rights.

Ratio Study ■ A study of the relationship between appraised or **assessed values and market values**. Indicators of market values may be either sales (**sales ratio study**) or independent "expert" appraisals (appraisal ratio study). Of common interest in ratio studies are the level uniformity of the **appraisal or assessments**.

Reassessment ■ The re-listing and reappraisal of all property in a jurisdiction or portion thereof. Also called reappraisal or revaluation.

Replacement Cost ■ The cost, including material, labor, and overhead, which would be incurred in constructing an improvement having the same utility to its owner as a subject improvement.

Reproduction Cost ■ The cost of constructing a new improvement, reasonably identical with the subject improvement, using the same materials, construction standards, design, and quality of workmanship.

Sales Chasing • The practice of using the sale of a property to trigger a reappraisal of

that property at or near the selling price. If sales with such appraisal adjustments are used in a ratio study, the practice uses invalid uniformity results and causes invalid appraisal level results, unless similar unsold parcels are reappraised by a method that produces an appraisal level for unsold properties equal to the appraisal level of sold properties. By extension, any practice that causes the analyzed sample to misrepresent the assessment performance for the entire population as a result of acts by the assessor's office. A subtle, possibly inadvertent, variety of sales chasing occurs when the recorded property characteristics of sold properties are differentially changed relative to unsold properties. Then the application of a uniform valuation model to all properties results in the recently sold properties being more accurately appraised than the unsold ones.

Sale Price ■ Amount paid for an item.

Sales Ratio Study ■ A **ratio study** that uses sales prices as a proxy for market values.

Single-Property Appraisal ■ Appraisal of properties one at a time. Contrasts with **Mass Appraisal.**

Statistics ■ (1) Numerical descriptions calculated from a sample. For example, the **median, mean**, or **coefficient of dispersion**. Statistics are used to estimate corresponding measures, termed parameters, for the population. (2) The science of studying numerical data systematically and of presenting the results usefully

Subject Property ■ The property being appraised.

Taxable Value ■ The appraised value minus all applicable exemptions, deductions, and abatements. Property taxes are levied on taxable value. ▼ In Indiana, the taxable value is referred to as net assessed value.

True Tax Value ■ In the case of agricultural land, the value determined in accordance with the Guidelines adopted by the Department of Local Government Finance. True Tax Value means ~~In the case of all other property,~~ market value-in-use as defined in this manual.

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Use Value See Value-in-Use; synonymous with Market Value-in-Use.

Valuation Date ■ The date as of which a property's value is estimated. ▼The date as of which the **true tax value** of the property is estimated. In the case of the 2011 general reassessment, this would be March 1, 2011.

Value-in-Use The value of property for a specified use, The concept that holds value to be inherent in property itself; that is, the value is based on the ability of the asset to produce revenue or utility through ownership. The value a

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specific property has for a specific purpose.

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Overview of Mass Appraisal Methods and Models

The purpose of this section of the rule is to give the assessing official an introduction to, and an overview of, mass appraisal methods and models. It is not the intent to be all-inclusive or to be the definitive source of information on the topic. Those desiring more detail on the subject are referred to the International Association of Assessing Officers textbook, **Mass Appraisal of Real Property**; copyright © 1999 by the International Association of Assessing Officers, 130 East Randolph Street, Suite 850, Chicago, Illinois 60601-6217.

As defined by the International Association of Assessing Officers and in the Definitions section of this rule, mass appraisal is, "The process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing." This definition can be compared to single-property appraisal, which is the process of valuing an individual property as of a given date. Although the two differ in the areas of data analysis and the degree of quality control required, they are similar in the steps applied to arrive at a final conclusion of value. Both are applied economic theory and have as a foundation various economic principles and theories.

Mass appraisal and single-property appraisal methods are based on what are known as the three approaches to value. These approaches are the cost approach, the sales comparison approach, and the income approach. They are three distinct ways of looking at property and estimating its value. The approaches to value offer three different alternatives a potential buyer has when deciding to make an offer on a property.

Cost Approach

The cost approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute parcel of vacant land and construct an equally desirable substitute improvement. In this approach, the appraiser calculates the cost new of the improvements, subtracts from it accrued depreciation to arrive at an estimate of the improvement's value, and then adds the value of the land as if vacant to arrive at an estimate of the subject property's total value. It can be expressed in a formula as follows:

$$(RCN - D) + LV = V$$

Where: RCN = Replacement/Reproduction Cost New of the Improvements
D = Accrued Depreciation
LV = Land Value, as if vacant
V = Total Property Value

Sales Comparison Approach

The sales comparison approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute improved property already existing in the market place. In this approach, the appraiser locates sales of comparable improved properties and adjusts the selling prices to reflect the subject property's total value. The adjustments are the quantification of characteristics in

properties that cause prices paid to vary. The appraiser considers and compares all possible differences between the comparable properties and the subject property that could affect value. Objectively verifiable market evidence should be used to determine these items. Items, which are identified as having an influence on value in the market place, are then quantified by the use of their contributory values. These contributory values then become the adjustments which are added to, or subtracted from, the selling price of the comparable property.

The sales comparison approach can be expressed in a formula as follows:

$$SP \pm Adj = V$$

Where:
- SP = Sale Price of a Comparable Improved Property
- ± = Plus or minus
- Adj = Adjustments
- V = Total Property Value

Income Approach

The income approach to value is based on the assumption that potential buyers will pay no more for the subject property than it would cost them to purchase an equally desirable substitute investment that offers the same return and risk as the subject property. It considers the subject property as an investment and, to that end; its value is based on the rent it will produce for the owner. It can be expressed in a formula as follows:

$$V = I \div R$$

Where:
- V = Value
- I = Income
- R = Rate

Using the Three Approaches

All three approaches to value are the basis for any single-property or mass appraisal "model" used by an appraiser. A "model" is defined by the International Association of Assessing Officers, and in the Definition section of this rule, as "A representation of how something works; for purposes of appraisal, a representation (in words or an equation) that explains the relationship between value ... and variables representing factors of supply and demand." The appraisal model selected and used by the appraiser can be thought of as the formula that is mathematically processed to arrive at an estimate of value for a property. Therefore, the formulas given for the three approaches to value above could be referred to as "models".

These general models of the three approaches to value outlined above can be refined and expanded through a process referred to as model specification. Model specification is the designing of a model that is based upon appraisal theory and attempts to reflect the actions of buyers and sellers in the market. Specification of a model includes choosing variables to be included in the formula and mathematically defining their relationship to each other and the property's value.

For example, the specification of a simple model is expressed below:

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IV + LV = V

Where: IV = Improvement Value

LV = Land Value

V = Total Property Value

This model could be refined as follows:

$$(SF, X \$, /SF) + (SFL X \$L/SF) = V$$

Where:
- SF = Improvement area in square feet
- $/SF = Unit price of the improvement per square foot
- SF_L = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

The model could be even further refined as follows:

$$NHF X [(SF, X \$,/SF) + (SF_L X \$L/SF)] = V$$

Where:
- NHF = Neighborhood Factor
- SF = Improvement area in square feet
- $/SF = Unit price of the improvement per square foot
- $SF_{L/}$ = Land area in square feet
- S_L/SF = Unit price of the land per square foot
- V = Total Property Value

As can be seen from the above demonstration, models can become very sophisticated in their attempt to reflect market conditions.

There are a multitude of models that have been developed for the mass appraisal process by assessing officials, vendors, and academics. Any of these models may be capable of producing accurate and uniform values for a particular class of property within a specified geographic area. However, not all models can be used for every type of property or in every jurisdiction nor do they all offer ease in administration. The market dictates what type of models should be used and administrative constraints, such as knowledge of the user and budget concerns, dictate what models can be used.

Whatever mass appraisal method(s) and model(s) a county chooses, they must be capable of producing accurate and uniform values throughout the jurisdiction and across all classes of property.

Minimum Data Requirements

Any mass appraisal method must have certain types of data available. These minimum data requirements are intended to allow taxpayers to understand the valuation process and provide the necessary information for the Department of Local Government Finance to perform its duties. These requirements are not intended to be restrictive but only to standardize the minimum data each county must have in its mass appraisal method. Any additional data a county wishes to collect is allowed under this rule.

Property Specific Characteristics:

- Parcel Number
- County
- Township
- Corporation
- Rectangular Survey Section #
- Subdivision/Plat Name
- Ownership information
- Street Address
- Property Class Code (See Appendix A)
- Taxing District #
- Neighborhood Code (residential only)
- Land Type Code (See Appendix B)
- Land dimensions
- Land Size
- Improvement(s) Sketch with labels
- Improvement Photograph (principal structure)
- Year of Construction for all improvements
- Condition Rating of all improvements
- Sales History with sales prices, annotated for any adjustments
- Assessment History from the last reassessment forward; broken down by land, improvement, and total

Comparative Data:

- Copies of all sales disclosure statements

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Assessment Ratio Studies and Equalization

The accuracy and uniformity of the assessments produced by any mass appraisal method shall be measured by an assessment ratio study. Should the results of the study show the assessments to be inaccurate and/or non-uniform, equalization shall be the remedy.

In addition to the assessment ratio study, the Department of Local Government Finance may apply other statistical tests and analysis that it may develop to determine whether the assessments are accurate, uniform, and equitable.

Assessment Ratio Studies

A ratio study is a measure of the performance of a mass appraisal method. It compares the assessing official's estimate of value with objectively verifiable data. The objectively verifiable data used in the comparison comes from selling prices and single-property appraisals prepared independent of the assessment process. Sales based ratio studies are preferred because they are less expensive and are more objective than independent single property appraisals.

The ratios used in assessment ratio studies are computed on individual properties by dividing the assessing official's estimate of assessed value, for the property by the sale price, or by an appraised value developed by single-property appraisal methods. If sale price was used, the ratio would be known as the assessment-sale price ratio. If appraised value was used, the ratio would be known as the assessment-appraisal ratio. The formula for an assessment-sale price ratio follows:

$$A/S = (AV) \div SP$$

Where: A/S = Assessment-sale Price Ratio
AV = Assessed Value
SP = Sale Price

*This variable is excluded for non-owner occupied property

For example, assume a property sold for $104,000 and was assessed for $79,000Applying the above formula would yield the following:

$$A/S = (\$79,000) \div \$104,000$$

$$A/S = 0.7596 \text{ Rounded to } 0.76$$

In this example, the assessment-sale price ratio would be 0.76, which is the equivalent of seventy-six percent (76%). In other words, this property is assessed at seventy-six (76%) of the value it should be assessed. Ideally, all assessment ratios should be at one hundred percent (100%) in order to be considered accurate.

The ratio study uses assessment ratios as the basic data to measure the performance of a mass appraisal method. It statistically measures the accuracy and uniformity of the assessments produced by the mass appraisal method. Accuracy is measured through the application of statistics by measures of central tendency. Uniformity is measured through the application of statistics by measures of relative dispersion.

The statistical measure of central tendency most often used in assessment ratio studies is the median. The statistical measure of relative dispersion most often used is the coefficient of dispersion about the median. Both of these measures are defined in the definitions section of this rule.

The median assessment ratio reveals the "average" level at which property is assessed. If, for example, the median assessment ratio for single-family homes in a particular neighborhood is 0.86 (86%) the conclusion can be drawn that, on the average, all homes are assessed at 86% of their value. If the assessment level is supposed to be 100% for this neighborhood, then the ratio study has shown that single-family homes are underassessed and, therefore, not accurately assessed. Ideally, the median should be at 1.00 (100%). This means all properties are, on the average, accurately assessed. But since mass appraisal methods produce only estimates of value and are not an exact science, the actual median assessment ratio may vary from the ideal.

The coefficient of dispersion reveals the "average" difference between individual assessment ratios and the median assessment ratio. It demonstrates the typical amount of deviation the individual assessment ratios have from the median. If, for example, the coefficient of dispersion about the median ratio for single-family homes in a particular neighborhood is 0.18 (18%) the conclusion can be drawn that the individual assessment ratios deviate, on the average, plus or minus 18% from the median assessment ratio. Ideally, the coefficient of dispersion should be at 0 (0%). This means all properties are assessed at the level shown by the median and, therefore, no deviation is present. But, like the median assessment ratio, the actual coefficient of dispersion may vary from the ideal.

Equalization

Standards for evaluating the accuracy and uniformity of mass appraisal methods have been developed by the assessing community. These standards state the overall level of assessment, as determined by the median assessment ratio, should be within five ~~ten~~ percent (5%) ~~(10%)~~ of the legal level. In Indiana, this means the median assessment ratio within a jurisdiction should fall between 0.95 (95%) ~~0.90 (90%)~~ and 1.05 (105%) ~~1.10 (110%)~~ in order to be considered accurate. This standard of five ~~ten~~ percent (5%) ~~(10%)~~ on either side of the value provides a reasonable and constructive range for measuring mass appraisal methods. (Comment: 10% on either side of a value very likely places neighbors at 20% difference in tax burden. This does not provide adequate "fairness".)

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These standards also state the coefficient of dispersion about the median should be at 0.15 (15%) or less for single-family residences and 0.20 (20%) or less for other classes of property. If the coefficient of dispersion is at, or below, these standards, then the mass appraisal method has produced uniform assessments. However, if the coefficient of dispersion is above these

standards, then the mass appraisal method has produced non-uniform assessments. (Comment: this standard may need to be lower also.)

Whenever inaccurate and/or non-uniform assessments are present, the county assessor and the Department of Local Government Finance are required to equalize assessments. Equalization of assessments is the process of ensuring all property is, on the average, accurately and uniformly assessed. The equalization process can be accomplished in two ways; through the application of factors to correct the accuracy and through reassessment to correct non-uniformity.

The following decision chart shows when each of the equalization procedures are appropriate:

Median Assessment Ratio	Coefficient of Dispersion	Action Required
Accurate ~~(0.90 to 1.10)(.95 to 1.05)~~	Uniform (=< 0.15)	Nothing
Accurate ~~(0.90 to 1.10)(.95 to 1.05)~~	Non-uniform	Reassess
Inaccurate	Uniform (-< 0.15)	Apply Factors
Inaccurate	Non-uniform	Reassess

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More details on assessment ratio studies and equalization will be found in the equalization rule, 50 IAC 14.

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Appendix A – Property Class Codes

Table A-1. Property Class Codes

Code	Class of Property
1	Agricultural taxable land and improvements used primarily for agricultural purposes
2	The legal description is being valued for severed mineral rights at a flat value of sixty dollars ($60) per acre
3	Industrial taxable land and improvements used primarily for manufacturing, processing, or refining foods and materials
4	Commercial taxable land and improvements used for general commercial and recreational purposes
5	Residential taxable land and improvements used primarily for residential purposes
6	Exempt property
8	Taxable land and improvements owned by a public utility company

Table A-2. Property Subclass Codes

Class Code 1 **Agricultural taxable land and improvements used primarily for agricultural purposes**

00	Vacant land	03	Dairy farm	07	Tobacco farm	11	Beef farm
01	Cash grain/general farm	04	Poultry farm	08	Nursery	20	Timber
02	Livestock other than dairy and poultry	05	Fruit & nut farm	09	Greenhouses	99	Other agricultural use
		06	Vegetable farm	10	Hog farm		

Class Code 2 **The legal description is being valued for severed mineral rights at a flat value of sixty dollars ($60) per acre**

00	Severed mineral rights

Class Code 3 **Industrial taxable land and improvements used primarily for manufacturing, processing, or refining foods and materials**

00	Vacant land	30	Medium manufacturing and assembly	46	Research and development facility	70	Small shop
10	Food and drink processing facility	40	Light manufacturing and assembly	50	Industrial warehouse	80	Mine or quarry
20	Foundries and heavy manufacturing	45	Industrial office	60	Industrial truck terminal	85	Landfill
						90	Grain elevator
						99	Other industrial structure

Class Code 4 **Commercial taxable land and improvements used for general commercial and recreational purposes**

00	Vacant land	25	Neighborhood shopping center (Strip center)	44	Full service banks	60	Theater
01	4 to 19 family apartments	26	Community shopping center	45	Savings and loans	61	Drive-in theater
02	20 to 39 family apartments	27	Regional shopping center	47	Office building (1 or 2 story)	62	Golf range or miniature course
03	40 or more family apartments	28	Convenience market	48	Office building (3 stories or more, walkup)	63	Golf course or country club
10	Motel or tourist cabins	29	Other retail structures	49	Office building (3 stories or more, elevator)	64	Bowling alley
11	Hotel	30	Restaurant, cafeteria, or bar	50	Convenience market with gasoline sales	65	Lodge hall
12	Nursing home and private hospital	31	Franchise-type restaurant	51	Convenience market / franchise-type restaurant with gasoline sales	66	Amusement park
15	Mobile home park	35	Drive-in restaurant	52	Service station	67	Health club
16	Commercial camp ground	39	Other food service	53	Car wash	68	Ice rink
19	Other commercial housing	40	Dry clean plant or laundry	54	Auto sales and service	69	Riverboat gaming resort
20	Small detached retail of less than 10,000 square feet	41	Funeral home	55	Commercial garage	80	Commercial warehouse
21	Supermarket	42	Medical clinic or offices	56	Parking lot or structure	81	Commercial mini-warehouse
22	Discount and junior department store	43	Drive-up/walk-up bank only			82	Commercial truck terminal
24	Full line department store					90	Marine service facility
						95	Marina
						99	Other commercial structures

Class Code 5 **Residential taxable land and improvements used primarily for residential purposes**

00	Vacant platted lot	15	One family dwelling on unplatted land of 40 or more acres	32	Three family dwelling on unplatted land of 10 to 19.99 acres	44	Mobile or manufactured home on unplatted land of 30 to 39.99 acres
01	Vacant unplatted land of 0 to 9.99 acres	20	Two family dwelling on a platted lot	33	Three family dwelling on unplatted land of 20 to 29.99 acres	45	Mobile or manufactured home on unplatted land of 40 or more acres
02	Vacant unplatted land of 10 to 19.99 acres	21	Two family dwelling on unplatted land of 0 to 9.99 acres	34	Three family dwelling on unplatted land of 30 to 39.99 acres	50	Condominium unit on a platted lot
03	Vacant unplatted land of 20 to 29.99 acres	22	Two family dwelling on unplatted land of 10 to 19.99 acres	35	Three family dwelling on unplatted land of 40 or more acres	51	Condominium unit on unplatted land of 0 to 9.99 acres
04	Vacant unplatted land of 30 to 39.99 acres	23	Two family dwelling on unplatted land of 20 to 29.99 acres	40	Mobile or manufactured home on a platted lot	52	Condominium unit on unplatted land of 10 to 19.99 acres
05	Vacant unplatted land of 40 or more acres						
10	One family dwelling on a platted lot						

Continued on next page.

Class Code 5 *continued*

11	One family dwelling on unplatted land of 0 to 9.99 acres	24	Two family dwelling on unplatted land of 30 to 39.99 acres	41	Mobile or manufactured home on unplatted land of 0 to 9.99 acres	53	Condominium unit on unplatted land of 20 to 29.99 acres
12	One family dwelling on unplatted land of 10 to 19.99 acres	25	Two family dwelling on unplatted land of 40 or more acres	42	Mobile or manufactured home on unplatted land of 10 to 19.99 acres	54	Condominium unit on unplatted land of 30 to 39.99 acres
13	One family dwelling on unplatted land of 20 to 29.99 acres	30	Three family dwelling on a platted lot	43	Mobile or manufactured home on unplatted land of 20 to 29.99 acres	55	Condominium unit on unplatted land of 40 or more acres
14	One family dwelling on unplatted land of 30 to 39.99 acres	31	Three family dwelling on unplatted land of 0 to 9.99 acres			99	Other residential structures

Class Code 6 **Exempt property**

00	Exempt property owned by the United States of America	40	Exempt property owned by a municipality	80	Exempt property owned by a charitable organization that is granted an exemption	86	Church, chapel, mosque, synagogue, tabernacle, or temple that is granted an exemption
10	Exempt property owned by the State of Indiana	50	Exempt property owned by a board of education	85	Exempt property owned by a religious organization that is granted an exemption	90	Exempt property owned by a cemetery organization that is granted an exemption
20	Exempt property owned by a county	60	Exempt property owned by a park district			99	Other exempt property owned by an organization that is granted an exemption
30	Exempt property owned by a township	70	Exempt property owned by a private academy or college				

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Class Code 8 **Taxable land and improvements owned by a public utility company**

00	Locally assessed vacant utility land	30	Locally assessed property owned by a pipeline company	50	Locally assessed property owned by a sewage company	61	State assessed property owned by a telephone, telegraph, or cable company that constitutes a part of any right-of-way of the distribution system
10	Locally assessed property owned by a bus company	31	State assessed property owned by a pipeline company that constitutes a part of any right-of-way of the distribution system	51	State assessed property owned by a sewage company that constitutes a part of any right-of-way of the collection system	70	Locally assessed property owned by a water distribution company
20	Locally assessed property owned by a light, heat, or power company	40	Locally assessed property owned by a railroad company	60	Locally assessed property owned by a telephone, telegraph, or cable company	71	State assessed property owned by a water distribution company that constitutes a part of any right-of-way of the distribution system
21	State assessed property owned by a light, heat, or power company that constitutes a part of any right-of-way of the light, heat, or power company	41	State assessed operating property owned by a railroad company				

Note: Under class code 8, subclass codes 21, 31, 41, 51, 61, and 71 have a zero value at the local level.

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Appendix B – Land Type Codes

Table B-1. Land Type and Sub-type Codes

Code	Type of Land
1 Commercial and Industrial Land	
1 Primary | 2 Secondary | 3 Undeveloped Useable | 4 Undeveloped Unusable	
2	Classified Land
3	Undeveloped Land
4	Tillable Land
5	Non-tillable Land
6	Woodland
7	Other Farmland
8 Agricultural Support Land	
1 Legal Ditch | 2 Public Road | 3 Utility Transmission Tower	
9 Homesite	
1 Residential Excess Acres | 2 Agricultural Excess Acres	

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Wolter, Catherine

From: Rushenberg, Tim
Sent: Friday, June 06, 2008 8:40 AM
To: Wolter, Catherine
Subject: FW: Manual, etc...

Attachments: F&M Schaeffer Brewing.rtf

F&M Schaeffer Brewing.rtf (335...

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: Beth Henkel [mailto:bhenkel@schuckitlaw.com]
Sent: Thursday, June 05, 2008 11:37 AM
To: Rushenberg, Tim
Subject: RE: Manual, etc...

I am working on this project today. Am attaching a case that graphically depicts what happened in Pennsylvania when their Supreme Court rejected value in use and applied value in exchange.

Cost approach value: $34 million
Value in exchange: $9.5 million.

Regards,

Beth Henkel, Esq.
SCHUCKIT & ASSOCIATES, P.C.
30th Floor Market Tower
10 West Market Street, Suite 3000
Indianapolis, Indiana 46204
Telephone: (317) 363-2400
Facsimile: (317) 363-2257
E-mail: bhenkel@schuckitlaw.com

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(i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

-----Original Message-----
From: Rushenberg, Tim [mailto:trushenberg@dlgf.in.gov]
Sent: Wednesday, June 04, 2008 6:27 PM
To: Beth Henkel
Subject: Re: Manual, etc...

Beth,

As you know the public hearing is on Monday, June 9. As we discussed previously, please provide to me your suggested changes to the 2002 Manual. I know you prefer value in use as the standard; thus, I'd like your written comments on clean up language you'd like to see made to the
2002 Manual. In other words, if the state kept value in use for the
2011 Manual, what changes would you make to the 2002 Manual? If you could get these to me by noon Friday, that'd be most helpful.

----- Original Message -----
From: Rushenberg, Tim
To: 'Beth Henkel' <bhenkel@schuckitlaw.com>
Sent: Mon May 19 17:25:09 2008
Subject: Manual, etc...

Beth,

I received your message. The more time you provide to us any comments, suggestions, etc... would be better, but there is no drop dead date (other than the July 1 adoption deadline).

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance Indiana Government Center North 100 North Senate Avenue N1058(B) Indianapolis, IN 46204
Phone: (317) 232-3777
Fax: (317) 232-8779

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F & M Schaeffer Brewing Co. v. Lehigh County Bd. of Appeals
Pa.,1992.

Supreme Court of Pennsylvania.
F & M SCHAEFFER BREWING COMPANY: c/o Stroh Brewing Company, Appellant,
v.
LEHIGH COUNTY BOARD OF APPEALS and County of Lehigh, Appellees.
Argued Jan. 22, 1992.
Decided May 18, 1992.

Brewery challenged county's tax assessment of its property. The Common Pleas Court, Lehigh County, Nos. 83-C-3255, 83-C-3418, 84-C-1899, 86-C-812,John E. Backenstoe, J., accepted county expert's fair market value determination. Taxpayer appealed. The Commonwealth Court, Nos. 588-591 C.D. 1989,Barry, Senior Judge,133 Pa.Cmwlth. 197, 575 A.2d 649, affirmed. Taxpayer appealed. The Supreme Court, No. 67 E.D. Appeal Docket 1991,Larsen, J., held that: (1) use of replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use was impermissible method of determining **fairmarketvalue** for **propertytax** purposes, and (2) valuation methodology which considered subject **property's** machinery and equipment was impermissible.

Reversed and remanded.

Nix, C.J., and Flaherty, Zappala, and Cappy, JJ., concurred in result.

West Headnotes

[1] Taxation 371 ⚿2515

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2515 k. Market Value and Sale Price; Comparable Sales. Most Cited Cases
(Formerly 371k348(3))
"Actual value," for purposes of real **property** taxation, is market value or **fairmarketvalue**, which in turn is defined as price which purchaser, willing but not obliged to pay, would pay owner, willing but not obliged to sell, taking into consideration all uses to which **property** is adapted and might in reason be applied. 72 P.S. §§ 5020-402, 5348(d).

[2] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
"Use value" or "value-in-use," for purposes of **propertytax** valuation, represents value to specific user and, hence, does not represent **fairmarketvalue**.

[3] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
Property's use and its resulting value-in-use cannot be considered in assessing **fairmarketvalue** of **property** for **tax** assessment purposes. 72 P.S. §§ 5020-402, 5348(d).

[4] Taxation 371 ⚿2516

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2516 k. Replacement Cost; Depreciation and Obsolescence. Most Cited Cases

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(Formerly 371k348(4))
Use of replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use in valuing real **property** for **propertytax** purposes was impermissible.

[5] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
Mere fact that legislature mandated consideration of all three approaches to valuation **property** including value-in-use did not mean that value-in-use was relevant in **tax** assessment cases. 72 P.S. §§ 5020-402, 5348(d).

[6] Taxation 371 ⚿2516

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2516 k. Replacement Cost; Depreciation and Obsolescence. Most Cited Cases
(Formerly 371k348(4))
Using replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use in calculating **fairmarketvalue** for **propertytax** purposes was not justified on basis that **property** fell into "special purpose" **property** category; consideration of value in use was no more relevant under guise of "special purpose" **property** than it was for any other **property**. 72 P.S. §§ 5020-402, 5348(d).

[7] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
Valuation methodology for real **propertytax** purposes which indirectly considered value of machinery and equipment of subject **property** was impermissible. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

[8] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
Under machinery and equipment exclusion of general county assessment law, traditional Pennsylvania law of fixtures and assembled **industrial** plant doctrine do not apply when defining real estate for **tax** assessment purposes; thus, in context of **propertytax** assessment law, not only are machinery and equipment to be excluded from value of real estate but they are not even to be considered in determining **fairmarketvalue** of **industrialproperty** for **tax** assessment purposes. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

[9] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
In view of public policy considerations, it is not sufficient only to exclude machinery and equipment from direct inclusion in assessable real estate valuation for **propertytax** purposes; to give exclusion proper effect, assessed value of **industrial** real estate must not, in any way, reflect consideration of value of machinery and equipment. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

****2*454**John E. Garippa, Seth I. Davenport, Montclair, N.J., for appellant.

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Anthony R. Thompson, Allentown, (for amicus curiae Pennsylvania Chamber of Business and Industry and Institute of Property Taxation).
Al Hettinger, Frank J. Madey, Allentown, William E. Schantz, Sol. for Upper Macungie, for appellees.

Before NIX, C.J., and LARSEN, FLAHERTY, McDERMOTT, ZAPPALA, PAPADAKOS and CAPPY, JJ.

OPINION ANNOUNCING THE JUDGMENT OF THE COURT

LARSEN, Justice.
Appellant F & M Schaeffer Brewing Company, c/o Stroh Brewing Company appeals from the order of the Commonwealth Court affirming the denial of appellant's tax assessment appeal by the Lehigh County Court of Common Pleas, which determined that appellant's property had a fair market value of $34 million for the years 1984-1988 and that the property's assessed value was $8,432,000 for 1984; $8,058,000 for 1985; $7,548,000 for 1986; $6,936,000 for 1987; and $6,120,000 for 1988.

The trial court described the subject property as follows:

The subject property involved is a 791,382 square foot facility situated on 62.243 acres of land located on the south side of U.S. Route 22 and on the west side of Pennsylvania Route 100 in Upper Macungie Township. ***455** In 1971 a brewery was built on the land by the F & M Schaeffer Brewing Co. and subsequently in 1981, the property was acquired by the Stroh Brewing Co. The bulk of the building area is contained in one large, irregularly shaped manufacturing office and warehouse plant. In addition there are numerous small special purpose buildings located on the southwest side of the main plant.

The plant was built by F & M Schaeffer specifically to produce beer. At the northwest end of the main plant are the tall six story brew houses. In 1982 a new brew house was added to accommodate the special fire brewing process for the production of Stroh's beer. Adjacent to the brew houses are the large silos which contain the grains used in the production of beer. Behind the silos is an interior rail shed which allows grains to be pumped from railroad cars into the silo storage area. Once the beer is brewed it is pumped into fermenter cellars adjacent to the rail shed and eventually it is stored in large storage cellars.

In the middle of the building is a 2 story office section. The office building contains the Stroh House which is a room for entertaining visitors. From the office section there is a visitors walkway for tours of the plant.

The rear portion of the plant is used for packaging and warehousing. Within this area there are elaborate packaging systems for bottling and canning the various beer products. Within the large warehouse there are three sections for keg washing, full keg storage and empty keg storage. In 1976 an addition was made to the warehouse to increase storage capacity. Outside the main building are various small support buildings which include additional warehouses, a ****3** garage, a waste recovery building a waste pre-treatment facility, a water recirculation building and a security building. The subject facility, with its attendant equipment, is capable of producing 3,500,000 barrels of beer annually.

Opinion of the Trial Court at pp. 2-3.

The subject property was assessed at a fair market value of $34 million in 1984. Appellant appealed the assessment ***456** to the Lehigh County Board of Assessment Appeals, which denied the appeal. Appellant then sought *de novo* review by the Court of Common Pleas. Thereafter, the County of Lehigh intervened.

Before the Court of Common Pleas, the parties stipulated to the applicable common level ratios [FN1] and presented expert testimony regarding the valuation of the subject property. Appellees' experts testified that the property's fair market value was $34 million. In arriving at this figure, appellees' experts testified that they first determined that the property's highest and best use was a "special purpose" brewery and then applied a replacement cost valuation approach based specifically on the amount of beer produced at the facility. Appellant's expert, on the other hand, testified that the fair market value was $9.5 million based on a comparable sales valuation approach. After hearing all of the evidence, the trial court rejected appellant's expert testimony and

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concluded that the property's fair market value was $34 million. The Commonwealth Court affirmed. We granted appellant's petition for allowance of appeal and now reverse.

> FN1. The applicable common level ratios were: 24.8% for 1984; 23.7% for 1985; 22.2% for 1986; 20.4% for 1987; and 18% for 1988.

Appellant contends that the assessment does not reflect the fair market value of the property because the valuation methodology relied on by the trial court impermissibly employed a value-in-use standard to arrive at fair market value. Specifically, appellant claims that appellees' experts erroneously considered the value-in-use of the subject property by first estimating the property's highest and best use (ie ... a brewery) and then applying a replacement cost approach based on the utility of the property for that use (ie ... the production of 3.5 million barrels of beer per year).

[1] Real estate is required to be assessed according to the "actual value thereof." 72 P.S. § 5020-402. The legislature has mandated that, in determining actual value, three approaches to valuation be used, namely, 1) cost (reproduction or replacement, as applicable, less depreciation and all *457 forms of obsolescence), 2) comparable sales and 3) income approaches, and all three must be considered in conjunction with one another. 72 P.S. §§ 5020-402, 5348(d). The term "actual value" is defined as market value or fair market value, which in turn are defined as "the price which a purchaser, willing but not obliged to buy, would pay an owner, willing but not obliged to sell, taking into consideration all uses to which the property is adapted and might in reason be applied." *Buhl Foundation v. Board of Property Assessment,* 407 Pa. 567, 570, 180 A.2d 900, 902 (1962). "The actual or fair market value, while not easily ascertained, is fixed by the opinions of competent witnesses as to what the property is worth on the market at a fair sale." *Id.; Algon Realty Co. Tax Assessment Appeal,* 329 Pa. 321, 323, 198 A. 49, 50 (1938).

[2] In contrast, use value or value-in-use represents the value to a specific user and, hence, does not represent fair market value. Authorities in the field of real estate valuation distinguish between market value (or value-in-exchange) and use value:

> Use value is a concept based on the productivity of an economic good. Use value is the value a specific property has for a specific use.... Use value may vary, depending on the management of the property and external conditions such as changes in the business.... Real property may have a use value and a market value.

The Appraisal of Real Estate, American Institute of Real Estate Appraisers, (9th **4 ed., Chicago, 1987), cited in Appellant's Brief at p. 14. "Strictly speaking, value-in-use does not fit the criteria discussed in the definition of market value above [willing buyer/willing seller] and should not be considered equivalent to or a substitution for market value." ***Industrial*** *Real Estate,* Society of **Industrial** Realtors, (4th ed., Washington D.C., 1984), cited in Appellant's Brief at p. 14.

[3] Because value-in-use is based on the use of the **property** and the value of that use to the current user, it may result in a higher value than the value in the marketplace.*458 Value-in-use, therefore, is *not* a reflection of **fairmarketvalue** and is not relevant in **tax** assessment cases because only the **fairmarketvalue** (or value-in-exchange) is relevant in **tax** assessment cases.[FN2] *See McGraw-Edison Company v. Washington County Board of Assessment Appeals,* 132 Pa.Cmwlth. 437, 443, 573 A.2d 248, 251 (1990); *Pittsburgh-Des Moines Steel Co., Inc. v. McLaughlin,* 77 Pa.Cmwlth. 565, 466 A.2d 1092 (1983). Thus, we hold that a **property's** use and its resulting value-in-use cannot be considered in assessing the **fairmarketvalue** of **property** for **tax** assessment purposes in Pennsylvania.

> FN2. We note that, while value-in-use cannot be considered in **tax** assessment cases, it must be considered in condemnation cases because the Eminent Domain Code specifically defines **fairmarketvalue** so as to encompass value-in-use principles. Section 1-603 of the Eminent Domain Code provides:
>
> **Fairmarketvalue** shall be the price which would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the

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following factors:

(1) The present use of the **property** and its value for such use.

(2) The highest and best reasonably available use of the **property** and its value for such use.

(3) The machinery, equipment and fixtures forming part of the real estate taken.

(4) Other factors as to which evidence may be offered as provided by Article VII.

26 P.S. § 1-603.

[4] Despite this Commonwealth's historical aversion to the consideration of value-in-use in **propertytax** assessment cases, appellees contend, and the courts below agreed, that the legislature's inclusion of the cost valuation approach in the **tax** assessment statutes made value-in-use relevant. The Commonwealth Court, opined that:

... before the legislature approved the cost approach, only a **property's** value-in-exchange **[fairmarketvalue]** was relevant in **tax** assessment cases. *Pittsburgh-Des Moines Steel.* However, a cost approach now has probative value in fixing **property** value for **tax** assessment purposes. *Reichard-Coulston [Inc., v. Revenue Appeals Board of Northampton County,* 102 Pa.Cmwlth. 227, 517 A.2d 1372 (1986)]. Under a cost approach, when the highest and best use of the **property** is continuing the ***459property's** existing use, the **property's** value to the current user logically is relevant to determine the reproduction or the replacement cost of the facility.

* * * * * *

Although the trial court rejected the value-in-use method, it implicitly applied value-in-use analysis to determine the brewery's replacement cost, as required under *Reichard-Coulston.* Because the trial court correctly determined the property's fair market value by using that cost approach, we conclude that the trial court committed no error....

F & M Schaeffer Brewing Co. v. Lehigh County Board of Appeals, 133 Pa.Cmwlth. 197, 203, 204, 575 A.2d 649, 652, 653 (1990).

[5] The courts below ignored the fact that real estate is still required to be assessed according to its fair market value, which by definition precludes consideration of value-in-use. The mere fact that the legislature mandated consideration of all three approaches to valuation does not mean that value-in-use is now relevant in tax assessment cases. The cost valuation approach must be employed in such a manner that a property's use and resulting value-in-use are not considered.

Therein lies the problem with the assessment in this case. In their determination of fair market value, appellees' experts improperly utilized a replacement cost approach**5 contingent upon the subject property's use as a brewery and the value of the property for that use (ie ... the production of 3.5 million barrels of beer annually). The experts first calculated the cost to replace the existing facility, including machinery and equipment. They did this by applying an industry standard of $50 per barrel of beer, which they lowered to $48 per barrel. Then, in order to factor out the machinery and equipment, they estimated a one-third real estate to two-thirds machinery and equipment ratio, which left them with a figure of $16 per barrel of beer. They multiplied the $16 figure by 3.5 million barrels of beer, subtracted depreciation and added the cost of the land to ***460** arrive at their estimated fair market value of $34 million. Appellees' experts never considered the size, shape or materials of their replacement model. Their valuation assessment simply replaced the existing facility with something of equivalent functional utility.

Thus, appellees' experts postulated a hypothetical model production plant with the only similarity to the subject property being its 3.5 million barrel per year capacity. They did so without any pretense of replicating the same physical characteristics of the actual real estate being assessed because their only aim was to value the property based on its use. The statutory language that sanctions the cost valuation approach does not permit a determination of fair market value that derives from a methodology that estimates the cost of a hypothetical, unspecific model

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that could vary completely in size, design and construction from that of the subject property. This misguided application of the cost valuation approach is clearly impermissible. The objective of a cost valuation approach is to estimate, as closely as possible, the cost to construct new the existing taxable real estate because that is, after all, the subject of the assessment-not the production process or use of the property.[FN3]

> FN3. Although other permissible cost valuation approaches were available, appellees' experts chose to ignore them. Appellees' experts did not consider the reproduction cost valuation approach, which estimates the cost to construct, at current prices, an exact replica of the property being appraised. Appellant's expert estimated the fair market value of the property using the reproduction cost approach to be $10.6 million. Additionally, appellees' experts disregarded two conventional methods of determining replacement cost valuation that do not consider the property's use. The first method, the unit-in-place method, is based upon cost estimates for major components of the property, and the second method, the engineering method, is based upon a very detailed breakdown of material and labor, with each item costed separately. All three methods, if considered, would have estimated the fair market value of the subject property without considering the property's value-in-use.

[6] Appellees, nonetheless, defend their valuation methodology because they claim the property falls into the "special purpose" property category, where valuation according*461 to use is the only proper method of valuation. The trial court defined "special purpose" property as:

"... property that is treated in the market as adapted to or designed and built for a special purpose. This definition combines both functional and structural aspects. A special purpose property becomes such either by its use for unique functions or by its distinctive specially designed structural details. The tax treatment of special purpose property is atypical and follows directly from this definition. Because the building is specially adapted to a unique use and will not readily be sold to another user, 'the very nature of special purpose property is such that market value cannot readily be determined by the existence of an actual market and therefore other methods of valuation such as reproduction cost must be resorted to.' " *McCannel v. County of Hennepin*, 301 N.W.2d 910, 924 (Minn.1980); *Federal Reserve Bank of Minneapolis v. State*, 313 N.W.2d 619 (Minn.1981); See also *Simmons Co. v. City of Linden, supra* [190 N.J.Super. 448], 464 A.2d 300 [(1983)].

Opinion of the Trial Court at pp. 12-13. Thus the trial court is saying that an appraiser can disregard, as non-probative, evidence of comparable sales and value a property exclusively by a cost valuation method-simply by labeling a property as **6 "special purpose." [FN4] Such a disregard for the cost, comparable sales and income approaches, is prohibited by 72 P.S. § 5020-402 and § 5348(d), both of which require that all three valuation approaches be considered. Moreover, valuation of **property** utilizing the "special purpose" **property** principle amounts to valuation according to value-in-use, which we have held to be an improper consideration in **propertytax** assessment cases. Consideration of value-in-use is no more relevant under the guise of "special *462 purpose" **property** than it is for any other **property**. It is an unacceptable consideration in **propertytax** assessment cases under all circumstances.[FN5]

> FN4. Especially troubling here is the expansive definition of "special purpose" **property** adopted by the trial court. Because almost all **industrial** real estate **properties** exhibit some peculiarities of design and use specific to the user's particular manufacturing processes, this broad definition could easily apply to most **industrialproperties**, leaving ample room for abuse.

> FN5. We emphasize, however, that our holding that value-in-use is not relevant in **propertytax** assessment cases does not preclude a **tax** that assesses business use or privilege.

[7][8] Appellant further argues that appellees' assessment is erroneous because inherent in its valuation methodology is the consideration of the

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subject **property's** machinery and equipment, which cannot legally be considered in **tax** assessment cases. Section 201 of the General County Assessment Law provides, in pertinent part, that:

... Machinery, tools, appliances and other equipment contained in any mill, mine, manufactory or **industrial** establishment shall not be considered or included as a part of the real estate in determining the value of such mill, mine, manufactory or **industrial** establishment....

72 P.S. § 5020-201(a).[FN6] Under this machinery and equipment exclusion, the traditional Pennsylvania law of fixtures and the assembled **industrial** plant doctrine do not apply when defining real estate for **tax** assessment purposes. *Jones and Laughlin* ***Tax*** *Assessment Case*, 405 Pa. 421, 175 A.2d 856 (1961). Thus, in the context of **propertytax** assessment law, not only are machinery and equipment to be excluded from the value of the real estate but they are not even to be considered in determining the **fairmarketvalue** of **industrialproperty** for **tax** assessment purposes.

> FN6. Once again, we must distinguish between **propertytax** assessment cases and condemnation cases, where the "machinery, equipment and fixtures forming part of the real estate taken" must be taken into consideration when determining **fairmarketvalue**. 26 P.S. § 1-603(3).

Appellees' experts, in the case herein, valued the subject **property** based on its production, and in doing so, they considered the **property's** machinery and equipment. Their analysis presupposes that the **property** will be sold as an ongoing brewery, which necessitates the use of the machinery and equipment, which are involved in the production of beer.

***463**[9] Appellees maintain that while the initial per barrel figure included the cost of the subject property's machinery and equipment, its experts eventually excluded the cost of the machinery and equipment by factoring out two-thirds of its $48 per barrel figure attributable to machinery and equipment. It is not enough, however, to exclude an arbitrary amount for machinery and equipment. By valuing the subject property based on its productive capacity appellees' experts indirectly *considered* the machinery and equipment. Section 5020-201(a) specifically states that machinery and equipment "shall not be considered or included as a part of the real estate...." The machinery and equipment exclusion clearly evidences a legislative intent and public policy to promote a favorable business climate in Pennsylvania by providing tax relief for Pennsylvania industries. *See Jones and Laughlin Tax Assessment Case* at 429, 175 A.2d at 860. In view of this public policy consideration, it is not sufficient only to exclude machinery and equipment from direct inclusion in the assessable real estate valuation. To give the exclusion proper effect, the assessed value of industrial real estate must not, in any way, reflect consideration of the value of the machinery and equipment. Otherwise, a **7 subtle-but no less real-assessment of machinery and equipment will result.

Therefore, because the valuation adopted by the lower courts is based solely on evidence of improper considerations of value-in-use and machinery and equipment, the assessed valuation of $34 million cannot stand. *See Buhl Foundation v. Board of Property Assessment*, 407 Pa. 567, 570, 180 A.2d 900, 902 (1962). Accordingly, we reverse and remand for further proceedings consistent with this opinion.

NIX, C.J., and FLAHERTY, ZAPPALA and CAPPY, JJ., concur in the result.
Pa.,1992.
F & M Schaeffer Brewing Co. v. Lehigh County Bd. of Appeals
530 Pa. 451, 610 A.2d 1

END OF DOCUMENT

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Wolter, Catherine

From: Rushenberg, Tim
Sent: Friday, June 06, 2008 4:16 PM
To: Wolter, Catherine
Subject: FW: Rule

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Suess, David [mailto:dsuess@boselaw.com]
Sent: Friday, June 06, 2008 4:01 PM
To: Rushenberg, Tim
Subject: RE: Rule

Tim: Sorry for the delay in getting back to you. We are in a trial in IL. Here are our comments, which we do not make on behalf of any client.

With regard to the standard of value, we understand the choice is shaping up to be a choice between traditional "market value", which is the standard applied by appraisers and employed in virtually all of the other states, and "market value-in-use." To the extent the DLGF adheres to the value-in-use standard, we believe the following changes should be madein order to make Indiana's property
assessment system and assessments uniform and equal and compliant with the Indiana Supreme Court's requirement that assessments be based on "objectively verifiable data" (see Town of St. John cases):

1. The language of the prior Manual suggesting that it is the value to a particular "user" (as opposed to the value for "the use") should be eliminated. This would require the removal of concepts such as "ask price" and "utility received from this user", because such an owner-specific valuation standard is clearly subjective and results in different valuation of comparable real property
interests based on factors not inherent to the property itself..

2. With respect to the "use" at issue, it should be broadly defined to permit appropriate use of sales comparables. For example, if the subject property is a manufacturing plant that produces widgets, the "use" is the manufacturing (or even industrial) use, and not a "widget-making-manufacturing" use. Also, to account for the real life situations encountered by appraisers, the definition of

"the use" should remain sufficiently flexible for the Assessors, Boards and Courts to consider other objectively verifiable data if comparability can be established consistent with generally accepted appraisal practices.

3. The definition must permit testing by sales ratio studies. While this is certainly clear in a pure "market value" definition, the "use value" definition cannot be set up in such a way that it makes testing by sales ratio studies impossible or difficult. It is therefore necessary to remove all language about owner-specific (as opposed to property-specific) considerations that cannot be
reflected in objectively verifiable data is.

4. Finally, I believe that the draft of the rule/Manual based on Market Value as defined and used throughout appraisal practice and the other states to be the best way to achieve the greatest uniformity and equality of assessments throughout the state. To the extent changes must be made to incorporate a "use value" concept, I suggest that changes to the earlier draft Manual be as minimal as
possible to achieve the goals of unformity and equality based on objectively verifiable data.

Thank you for the opportunity to submit comments. I wish I were in Indianapolis this week so I could provide more detail. I hope the Department finds these comments helpful.

Respectfully.

David Suess
(btw, Thomas Atherton concurs in these remarks).

--- Original Message ---
From:"Rushenberg, Tim" <trushenberg@dlgf.in.gov>
Sent:Fri 6/6/08 1:23 pm
To:"Atherton, Thomas" <TAtherton@boselaw.com>
Cc:"Suess, David" <dsuess@boselaw.com>
Subj:RE: Rule

Gentlemen,

Due to the feedback we've received and suggestions, there is a very strong likelihood we will stick with "value in use." This will likely be announced at the Monday public hearing.

Can you provide any written suggestions to me on what "clean up" changes you'd like to see to the current 2002 Manual and "value in use?" In order to make such a change from the published "market value" rule, there is a "logical outgrowth" test applied by the AG's office.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Rushenberg, Tim
Sent: Thursday, June 05, 2008 6:44 PM
To: Atherton, Thomas
Cc: dsuess@boselaw.com
Subject: Rule
Importance: High

Tom,

I know you and David are stuck in trial this week in Illinois. Nevertheless, as you know, the public hearing on the rule is set for Monday, June 9th. If the decision is made to stick with "value in use," what "clean up" changes would you like to see to the 2002 Manual, Guidelines, and administrative rule?

The sooner you can provide me written comments, the better. I know this will be difficult while in trial this week and given the tight deadline. I'll do my best to incorporate what you told me months ago verbally about the "ask price" concerns.

Thanks for all of your valuable input on this entire process.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance
Indiana Government Center North
100 North Senate Avenue N1058(B)
Indianapolis, IN 46204
Phone: (317) 232-3777
Fax: (317) 232-8779

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Wolter, Catherine

From: Beth Henkel [bhenkel@schuckitlaw.com]
Sent: Sunday, June 08, 2008 5:14 PM
To: Rushenberg, Tim
Subject: FW: E-mail message from KONICA MINOLTA

Attachments: 08060816090.pdf

08060816090.pdf
(1 MB)

This was to be included with my message, sent a few moments ago.

-----Original Message-----
From: copier@[192.168.00.01] [mailto:copier@[192.168.00.01]]
Sent: Sunday, June 08, 2008 5:10 PM
To: Beth Henkel
Subject: E-mail message from KONICA MINOLTA

Wolter, Catherine

From: Beth Henkel [bhenkel@schuckitlaw.com]
Sent: Sunday, June 08, 2008 7:14 PM
To: Rushenberg, Tim
Subject: RE: 2002 Manual suggested changes

Here is the rest of it for comments.

I am not sure where to put the comments on changing the assessment date and valuation date. I don't see how they can be the same -- it's currently in my changes to the existing Manual.

Sorry -- getting punchy. Let me know if you have to have a separate comment or these suggestions are enough. And my prior written comments in the form of emails.

Thanks.

-----Original Message-----
From: Rushenberg, Tim [mailto:trushenberg@dlgf.in.gov]
Sent: Sunday, June 08, 2008 6:20 PM
To: Beth Henkel
Subject: Re: 2002 Manual suggested changes

Fantastic. Thanks.

----- Original Message -----
From: Beth Henkel <bhenkel@schuckitlaw.com>
To: Rushenberg, Tim
Sent: Sun Jun 08 17:12:04 2008
Subject: 2002 Manual suggested changes

Tim: Attached, in PDF form, and as you requested, are my recommended changes as well as recommended retainage in the 2002 Manual. I have focused on the Introduction, which contains the meat of the background on the meaning and practical application of market value in use.

You should have Attachment A next to my written comments, as I could not do a "track changes" version. I don't have a Word version of the 2002 Manual.

I will also submit comments tomorrow on the 2011 Manual that the DLGF proposed, focusing on the proposed change to value in exchange, together with these comments.

Thank you very much.

Beth H. Henkel

317-363-2400

Wolter, Catherine

From: Beth Henkel [bhenkel@schuckitlaw.com]
Sent: Sunday, June 08, 2008 7:29 PM
To: Rushenberg, Tim
Subject: FW: E-mail message from KONICA MINOLTA

Attachments: 08060818290.pdf

08060818290.pdf
(805 KB)

Again, forgot to include the actual attachment.

Please see attached.

Regards,

Beth

-----Original Message-----
From: copier@[192.168.00.01] [mailto:copier@[192.168.00.01]]
Sent: Sunday, June 08, 2008 7:29 PM
To: Beth Henkel
Subject: E-mail message from KONICA MINOLTA

Wolter, Catherine

From: Beth Henkel [bhenkel@schuckitlaw.com]

Sent: Sunday, June 08, 2008 5:12 PM

To: Rushenberg, Tim

Subject: 2002 Manual suggested changes

Tim: Attached, in PDF form, and as you requested, are my recommended changes as well as recommended retainage in the 2002 Manual. I have focused on the Introduction, which contains the meat of the background on the meaning and practical application of market value in use.

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I will also submit comments tomorrow on the 2011 Manual that the DLGF proposed, focusing on the proposed change to value in exchange, together with these comments.

Thank you very much.

Beth H. Henkel

317-363-2400

Suggested Modifications to the 2002 Real Property Assessment Manual, for Incorporation in the 2011 Real Property Assessment Manual

Submitted to the Department of Local Government Finance
By Beth H. Henkel, Attorney at Law, June 9, 2008.[1]

[Please compare these Comments with the 2002 REAL PROPERTY MANUAL. The following comments are recommended changes and clarifications to PAGE 2 of the 2002 Manual:]

Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. Current Indiana law as well as Administrative Code also provides for annual adjustments of real property assessments after that date. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011 assessment date and forward. It includes a number of revisions from the 2002 Indiana Real Property Assessment Manual.

The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:

> a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.[1]

IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the Department of Local Government Finance." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the ***Department of Local Government Finance*** to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.

True tax value, therefore, is defined as:

> The market value-in-use of a property for its current use, as reflected by

[1] The writer apologizes that these changes are not incorporated into the original 2002 Manual, but due to the fact that the 2002 Manual is not in Word format, the writer was unable to make these comments in a change-mode format. These comments and suggested changes should be read in conjunction with the text of the 2002 Real Property Assessment Manual provided with these comments and should be incorporated at the page numbers indicated in the attached version. Changes are marked in bold and italic.

the utility received by the owner or by a similar user ***at the same intensity of use of the property***

It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides a definition of true tax value and general rules for assessing property, situations may arise that are not explained or ***preliminary assessments may exist that are inconsistent with this definition. In those cases, the assessor shall adjust the assessment to comply with this definition. It is therefore the Assessor's responsibility to arrive at an estimate of true tax value (market value-in-use) for every parcel within their jurisdiction and to ensure that each such assessment is fair, equitable and uniform.***

In instances where the Assessor has made an error in the overall value of the parcel, either high or low, the Assessor is expected and required to adjust the assessment to obtain the best estimate of true tax value for the valuation date in question. Moreover, once an assessment error is discovered on one parcel, it should not be compounded by permitting that error to remain on other comparable parcels. The erroneous valuation on such parcel (or group of parcels) should be corrected, so as to create more accurate and uniform assessments for all parcels.

True tax value may be considered as the price that would induce the owner to sell the real property, and the price at which the buyer would purchase the real property for a continuation of use of the property for its current use. In markets in which sales are not representative of the utility to the owner, either because the utility derived is higher than indicated sales prices, or in markets where owners are motivated by non-market factors such as the maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange. ***The market value in use standard, does include a market value in exchange component in*** markets where there are regular exchanges ***for the current use,*** so that ask and offer prices converge.

The basis of True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under a value in use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value in use approach:

Use Value: The value a specific property has for a specific use.

Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383 (1993).

[*PLEASE REFER TO MARKED TEXT ON THE 2002 MANUAL, ATTACHMENT A.* LEAVE IN MOST OF CURRENT LANGUAGE, PAGE 3 OF THE 2002 MANUAL, AS SHOWN ON ATTACHMENT A, UP TO THE LAST PARAGRAPH ON THAT PAGE, THEN AS FOLLOWS]

Property wealth estimated by value-in-use often approximates value-in-exchange in instances where property types are frequently exchanged an dused by both buyer and seller for the same purpose. A good example of this outcome is a neighborhood retail center that is well occupied and maintained. ***Two examples of instances where property wealth under value-in-use will be different from value-in-exchange are (1)*** special purpose industrial properties where value-in-exchange occurs only infrequently and under special circumstances; ***and (2) single-family residential property in an area zoned commercial or in which rental property is the predominant use.***

[OMIT NEARLY ALL OF PAGE 4 OF THE 2002 MANUAL, EXCEPT, AS MODIFIED, THE FIRST PARAGRAPH ON PAGE 4.

[COMMENTS TO PAGE 5 OF THE 2002 MANUAL: BEGIN PAGE AS FOLLOWS]

Use value and a pure market value system produce similar assessments on many properties. However, in some instances the two approaches may produce radically different values. Indiana has recently chosen to enact legislation that places maximum property tax payments based on the classification, use and assessment of property. Those maximums are premised on the existing definition of property wealth. This Manual shall not override legislative intent.

As a use value concept, a recent sale of the parcel itself in an arm's-length transaction is the best indicator of true tax value. However, on parcels that have not transacted recently, the Assessor shall estimate true tax value based on the application of the various approaches to value, each given the appropriate weight for the particular parcel and circumstances.

The comparability of property requires a comparable use. Sales of houses with a residential use are typically the best comparable to ascertain the value-in-use of a house used as a residence. Sales of vacant land are the best indicator of land value, so long as the use of the land is consistent with the intent of the purchaser. For commercial and industrial property, sales of real estate with a similar use are often good indicators of property wealth. However, sales of vacant, unused structures are only indicative of value of similar, vacant structures and may provide less insight as to the use value of occupied structures with various uses. The value of any personal property involved in a

transaction should be removed from the sales price in order to produce a better estimate of real property wealth.

Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property. The first approach, known as the cost approach, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the sales comparison approach, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the income approach, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization.

All three of these approaches, when properly processed, should produce similar estimates of value. Fee appraisers often use at least two of these three approaches when appraising individual properties, but the final estimate of value is based on their opinion of the most applicable method, or weighting between methods, for the particular property. For most but not all residential property, the appraiser often only considers the sales comparison approach, as it is the most indicative of both use value and pure market value. Assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment. For certain parcels, the Assessor may not have the requisite data to apply all three approaches to each property. The Assessor should consider all possible methods of ascertaining market value-in-use for property, but the final estimate must necessarily involve their estimate of value by any and all methods. Comparable property wealth may be the best estimate of value in such instances. A single approach to value is not appropriate for all types of property in all situations.

The Assessor shall apply whatever valuation methods (cost, sales and/or income) deemed appropriate for the particular parcel. In some cases, the cost approach may yield the most valid estimate of true tax value. The cost approach may be a useful as a starting point in the valuation of special purpose or special design properties. See Appraisal Institute, Appraisal of Real Estate, Twelfth Ed. at 25-26. Sales and/or income approaches often yield appropriate estimates of value for income-producing property. This 2011 Manual maintains the overriding principle of the 2002 Manual that a fair, accurate and uniform "bottom-line" assessment of property is the goal of the Assessor. Regardless of the determination of any other subjective or objective elements in an assessment, the aspect of the assessment subject to appeal is whether the assessment comports with the definition of market value in use.

[LEAVE IN FIRST PARAGRAPH ENDING ON PAGE FIVE – AS FOLLOWS] Fee appraisals of the a subject property, or comparable sales approaches that estimate the

market value of improvements may be considered in determining true tax value if they are based on the market value in use standard and use market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. [LEAVE IN REMAINDER OF FIRST PARAGRAPH, EXCEPT FOR LAST LINE THEREOF. Also, respectfully suggest that you retain so much of the last paragraph on page 5 that emphasizes that properties be compared to the market data, not their own value. This component emphasizes that you don't reward bad management – i.e., expense ratios and vacancies that exceed the market points to management issues as opposed to a true value issue.]

ADD AFTER BOTTOM OF PAGE FIVE:

For the 2011 Manual, certain clarifications regarding obsolescence and market value-in-use are appropriate. A typical issue in mass valuation and in appeals under both the old, cost-based system and under the market value-in-use system is whether additional depreciation, typically labeled "obsolescence," is to be applied in the valuation of a property. In a long line of cases under the old cost-based system, the Tax Court applied market value principles and laid out a two-pronged requirement for demonstrating obsolescence. First, the taxpayer or assessor must identify the causes of the obsolescence, and, second, it must quantify the amount of obsolescence to be applied. See, e.g., Lacy Diversified Indus., Ltd. v. Dep't of Local Gov't Fin., 799 N.E.2d 1215, 1223 (Ind. Tax Ct.2003). Under each of these prongs, however, the Tax Court required there to be a connection to an actual loss in property value. In other words, the Court required a demonstration that there were factors causing an actual loss of value to the property. In doing so, the Tax Court further declared:

> ***. . . [W]hen identifying causes of obsolescence, a taxpayer must provide probative evidence that identifies the existence of specific factors that are causing obsolescence in its improvement. In other words, the taxpayer must show how these factors are causing an actual loss of value to its property. In the commercial context, this loss of value usually means a decrease in the property's income-generating ability.***

Hometowne Associates, L.P. v. Maley 839 N.E.2d 269, 273 -74 (Ind.Tax,2005) citing Miller Structures, Inc. v. State Bd. of Tax Comm'rs, 748 N.E.2d 943, 954 (Ind. Tax Ct.2001) (emphasis added.)

Under market value in use, these same principles apply in the application of obsolescence adjustments to real property. Accordingly, before Assessors apply additional depreciation or obsolescence adjustments to real property, they must identify or determine that there are specific factors that are causing obsolescence in improvement and that these factors are causing an actual loss of value to the

property. In the commercial context, this loss of value usually means a decrease in the property's income-generating ability.

The General Reassessment will have an assessment date of March 1, 2011. The valuation date for real property for that reassessment shall be as of July 1, 2010. Assessors shall use sales of properties occurring between July 1, 2009, and December 31, 2010, in performing sales ratio studies for the March 1, 2011, assessment date. Cost data from the second quarter of 2010 shall be used in estimating costs.

In the prior reassessment in 2002, there was a gap of more than three years in the reassessment date and the valuation date. Similarly, under the Department's annual adjustment rule, a gap of more than one year between the valuation date and the assessment date occurred.

As a practical matter, these gaps raise thorny issues that have likely caused inequities in the valuation of properties that are appealed versus those that are not, and some confusion in the case law addressing these appeals. It is difficult for an appraiser or assessor to estimate the value of a property that has changed since the valuation date.

On the other hand, making the assessment date and the valuation date the same raises additional problems. Cost data is available only after the fact, sometimes as long as three to four months after the fact. So costs for March 1, 2011, the date on or before which the reassessment "shall be completed," IC 6-1.1-4-4(b)(1), may not be available until several months after that date. Moreover, sales ratio studies and equalization are to be complete by June 1, 2011, and rolled to the auditor by July 1, 2011. Placing the assessment date and valuation date as the same raises the specter of another series of delays and missed deadlines in this reassessment.

Placing the valuation date at July 1, 2010, moves the date closer to the reassessment date, but allows assessors sufficient time to develop costs and analyze ratio studies.

In order to clarify the meaning of the valuation date, the physical condition of the property and the economic circumstances in effect as of March 1, 2011, as they relate to the value of real property shall be taken into account in the valuation of real property. Any trending of values to that date in any ratio study or in any appeal shall be based upon changes in the value of real property and methodologies applicable to annual adjustments of real property, not on the consumer price index or any other adjustment factor that is not specifically tied to the value of real property. See, 20 IAC 21-5-2.

[THE FOLLOWING OBSERVATIONS ARE ALSO USEFUL CLARIFICATIONS REGARDING MARKET VALUE IN USE CONCEPTS THAT MAY BE INCORPORATED

INTO THE MANUAL. THESE COMMENTS WERE GATHERED FROM TECHNICAL ADVISERS IN THE FIELD WHO HAVE SPENT SEVERAL YEARS WORKING DIRECTLY WITH COUNTIES ON MARKET VALUE IN USE REASSESSMENT, TRENDING, AND VALUATION ISSUES.]

Special purpose property means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. Special-purpose properties often have very different property wealth estimates under market value-in--use as opposed to market value-in-exchange, or so-called "most probable price" definitions. Certain structures, while in use, generate great value to the owner. Examples might include utility generating stations, steel mills and refineries. Vacant, unused special purpose structure might have little or no market value, indeed, perhaps only a net land value. However, use value yields a substantially different estimate of property wealth. Further, from a use value perspective, the environmental contamination that might exist at a special purpose property would have no impact on the use value of the property, since the prior use, current use and future use of the real estate are similar. The environmental damage to the land might only be recognized if and when the property were re-developed for a different use, leading to a different estimate of use value. Use value may be estimated using a variety of techniques, including but not limited to: cost less depreciation, sales of similar facilities while in use for the intended purpose of the structure to a similar user, sales of similar entities/structures valued on an output basis, net present value of benefits from the continued use of the present site, etc.

As noted previously, most types of fair market value data or valuation methods may be used to calculate True Tax Values, so long as the use value of property is the final outcome. Fee appraisals of the subject property, or comparable sales approaches, that estimate the market value of improvements may be considered in determining true tax value if they are based on the value-in-use standard and utilize market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts.

There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual. Such evidence may include actual construction costs, sales information

regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles. The validity of the assessment shall be evaluated on the basis of **all** relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether it reflects the property's true tax value as defined in this manual.

Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value. The county assessor shall utilize assessment studies, as provided in 50 IAC 14 and elsewhere, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, including the appropriate strata, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Reference: Standard on Ratio Studies, International Association of Assessing Officers, August 2007.

Concept

The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method, or combination thereof, to arrive at that value. The important considerations in choosing a

mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.

Introduction

~~A general reassessment of all real property within the state is required as of March 1, 2002.~~ The next general reassessment is statutorily required for ~~March 1, 2006.~~ This assessment manual contains the rules for assessing ~~real property~~ located in Indiana for the March 1, 2002, through ~~March 1, 2005, assessment~~ dates. It includes a number of changes from prior ~~reassessment manuals issued by the State Board of Tax Commissioners.~~

See submitted suggested changes

The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:

> a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.[1]

IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the State Board of Tax Commissioners." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the State Board of Tax Commissioners to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.

True tax value, therefore, is defined as:

> The market value-in-use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property, ~~less that portion of use value representing subsistence housing for its owner.~~

See suggested changes

It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides general rules for assessing property, situations may arise that are not explained or that result in assessments that may be inconsistent with this definition. In those cases the assessor shall be expected to adjust the assessment to comply with this definition and may ask the State Board to consider additional factors, pursuant to IC 6-1.1-31-5, to accomplish this adjustment.

See suggested changes

~~True tax value may be thought of as the ask price of property by its owner, because this value~~ more clearly represents the utility obtained from the property, and the ask price represents how much utility must be replaced to induce the owner to abandon the property. In markets in which sales are not representative of utilities, either because the utility derived is higher than indicated sale prices, or in markets where owners are motivated by non-market factors such as the maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange. In markets where there are regular exchanges, so that ask and offer prices converge, true tax value will equal value in exchange,

Attachment A

[1] *State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034, 1040 (Ind. 1998).

except for owner occupied housing units, where true tax value will be equal to the value in exchange less the shelter allowance.

Not essential: include shelter allowance concepts

To satisfy the requirements imposed by the courts and the legislature, True Tax Value uses fair market value data of property wealth, but derives values that are not based strictly on fair market value. Instead, True Tax Value gives recognition to two principles of the theory of wealth and value that fair market value does not adequately capture: (1) the concept of value-in-use; and (2) the recognition that "wealth" at its core is not an absolute, but rather to some degree, a comparative term.

Based on the decisions provided by recent court rulings, the basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under a value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:

Leave in

Use Value: *The value a specific property has for a specific use.*[2]

Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization.

All three of these approaches, when properly processed, should produce approximately the same estimate of value. Fee appraisers use all three approaches when appraising individual properties. However, assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment and often times do not have the data or time to apply all three approaches to each property. Therefore, the cost approach has historically been used in mass appraisal by assessing officials since data is available to apply it to all properties within a jurisdiction. The cost approach also lends itself to mass appraisal because it is easily adapted to computer systems.

Replacement cost is preferred as opposed to reproduction cost because replacement cost estimates the cost of a physical structure with similar utility. This estimate of cost should be closely aligned with value-in-use.

Leave in

Property wealth estimated by value-in-use often approximates value-in-exchange in instances where property types are frequently exchanged and used by both buyer and seller for the same purpose. A good example of this outcome is a small neighborhood retail center that is well occupied and maintained. There are two obvious instances where property wealth under value-in-use will be different from value-in-exchange. This first is for residential properties where the owner cannot freely transfer 100 percent of the sale price to some other asset type, but rather must keep at least a minimal amount to be used to purchase alternative shelter. In this sense,

[2] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383. (1993)

Leave in

~~the minimal amount required to provide a basic level of shelter is not a form of property wealth but rather is a minimal amount needed for subsistence and reflects a lack of disposability. The second instance is~~ for special-purpose industrial properties where value-in-exchange occurs only infrequently and under special circumstances.

See comments

~~In the first instance, shelter does not share the characteristics of disposability that are exhibited~~ in other forms of property wealth such as business and industrial property, agricultural land, or residential property above the subsistence level. These other types of property wealth can be disposed of in return for equivalent amounts of other asset types while continuing to meet the person's basic needs. However, a person who sells a residence must reinvest at least the subsistence level of shelter into another residence. Therefore, the value-in-use for the most basic forms of shelter does not represent property wealth and must be deducted from the True ~~Tax Value.~~

Omit shelter allowance

~~Subsistence shelter also illustrates the second way in which wealth departs somewhat from~~ value – because wealth is a comparative term that expresses abundance. Subsistence shelter is certainly not abundance. ~~Therefore,~~ it is not wealth because it represents something ~~everyone has (or at least should have in modern society).~~

Omit

~~In the second instance, special-purpose properties often have very different property wealth~~ estimates under a value-in-use scenario as opposed to value-in-exchange ~~due to~~ the motivations of the parties involved. This difference can be expressed as the difference between the bid and ask price for a special-purpose asset. ~~The~~ bid price is what a buyer is willing to pay to purchase an asset, the ask price is what the seller is willing to take in exchange for an asset. Typically, the bid price will initially be lower than the ask price, some negotiation will occur, and ~~when the two are equal an exchange will take place.~~

~~In assessment, we are estimating how this negotiation will be resolved as of January 1, 1999.~~ March 1, 2011

For property types that are frequently traded, the bid and ask price are likely to be fairly similar. For properties that are infrequently exchanged, ~~or that are~~ only exchanged under extraordinary circumstances, this ~~difference~~ between the bid and ask price is likely to be wider and more ~~difficult to reconcile.~~

~~A seller of a special-purpose industrial property would accept nothing less than a price equal to~~ the utility being gained from the property. For properties currently in use, this amount would be termed the value-in-use ~~(i.e. the ask price)~~. A buyer of a special-purpose property would initially bid no more than necessary to motivate the seller. A buyer would likely start with a low bid such as the liquidation value of the property. Assuming that the buyer intends to use the property for its current use, the buyer will likely adjust the bid price until a transaction is completed. Since the seller has no motivation to sell at anything less than the value-in-use for a special-purpose property, the ask price becomes the benchmark for a likely transaction under a value-in-use scenario. In the case in which the seller adjusts its opening price and actually consummates a transaction with the buyer at an agreed price, the bid and ask prices coincide and reflect the value-in-use of the property.

Omit

~~As noted previously, some types of fair market value data or valuation methods may be used to~~ calculate True Tax Values, but these data and methods may be used only as described in these rules. In general, such methods will be applicable only if they rely on data that was readily available to the assessor at the time the assessment was made and they represent a reliable indicator of value based on the value-in-use premise or except as the Board may provide in its ~~equalization rule. Fee appraisals of the subject property, or comparable sales approaches, that~~

Omit

See comments changes for Page 5

estimate the market value of improvements may be considered in determining true tax value if they are based on the value-in-use standard and utilize market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts. Single-use or specialty property for this purpose means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. When others could feasibly use the property for the same general commercial or industrial purpose, e.g. light manufacturing, general retail, or other use type defined in this manual, comparable sales data may be employed to determine true tax value if the data is reliable, the sampled property sales are reasonably comparable based on accepted appraisal standards, and the data was reasonably available to the assessor at the time the assessment was made.

Omit

For the purposes of this provision, "readily available" means information reasonably imputed to be information that the assessor should know is relative to the assessment, that the assessor is aware exists, and could have been accessed with reasonable ease or that the assessor could have availed himself/herself of with reasonable ease. Likewise, any information held, possessed or controlled by a taxpayer that is not furnished to the assessor prior to the assessment date, or otherwise made available and known to the assessor, cannot be considered readily available to the assessor. Information in the hands of a taxpayer is "readily available" to the assessor, however, if the taxpayer offers to make the information available to the assessor and describes the general grounds for its relevance to the assessment before the assessment date, even if the information itself is not provided to the assessor. If the underlying data are disclosed prior to the assessment date, they may then be used to develop appraisal reports or other opinions of value. For example, if a taxpayer discloses the existence of a plant bottleneck to the assessor prior to the assessment date and indicates that the taxpayer's records may support the application of functional obsolescence to recognize the effect such bottleneck may have on value, the taxpayer would have satisfied the "readily available" standard even if the taxpayer waited until after the assessment date to have a full appraisal prepared considering this effect.

Consider leaving in salient points

This methodology meets the court's recent ruling that each taxpayer does not have the right to "absolute and precise exactitude as to the uniformity and equality of each individual assessment...nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax appeals"[3]. The analysis relies in part on neighborhood and industry-wide data in adjusting for depreciation and in doing so incorporates objective and verifiable data. Appeal of assessments must operate within the rules and utilize data in the same manner as provided in this manual. In general, this requires that challenges to assessments be proven with aggregate data, rather than individual evidence of property wealth. Since assessments are calculated using aggregate data, it is not permissible to use individual data without first establishing its comparability or lack thereof to the aggregate data. By requiring taxpayers to make any internal data "readily available" assessors are given the opportunity to establish this comparability.

Mark

[3] *State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034 (Ind. 1998).

There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual ~~and was readily available to the assessor at the time the assessment was made~~. Such evidence may include actual construction costs, sales information regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles.

Further definitions that help to explain the concepts explained in this introduction include value and property wealth:

Value: Use value, the value a specific property has for a specific use.

Property Wealth: The abundance of economic utility realized from property rights.

Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value. The county assessor shall utilize assessment studies, as provided in a separate rule, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Concept

The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method to arrive at that value. The important considerations in choosing a mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.

NEXUS GROUP
PROPERTY TAX CONSULTANTS

Memorandum

To: Indiana Department of Local Government Finance (DLGF)
From: Nexus Group
Re: Proposed Real Estate Manual & Guidelines
Date: June 8, 2008

The following is a summary of our public comments for the June 9, 2008 public hearing on the proposed real estate manual and guidelines for the March 1, 2011 general reassessment:

I. Value-in-Use v. Value-in-Exchange

While fair market value (i.e. value in exchange) is the most widely used system of real estate valuation among the states, Nexus Group agrees with the DLGF that now is not the right time to adopt such a standard. As such, Nexus Group has re-written the first section of the 2002 Real Property Assessment Manual (attached). This proposed language is intended to preserve, strengthen, and clarify the current value-in-use standard.

II. Change in Valuation Date

Currently in Indiana, there is a disconnect between the assessment date (March 1) and the valuation date (January 1 of the preceding year). This is not uncommon among the states. While we have no conceptual problem with making them the same date, there are several implementation issues worth mentioning. First, it generally takes assessors 2-4 months for sales disclosure forms (SDFs) to be verified, validated, and data entered. In many instances, individual SDFs need further review and site visits to the specific parcel(s). In all, the SDF process, from start to finish, may take up to six months. Thus, sales from December 2011 may not be "usable" until June 2012. This may cause delays in the implementation of the 2011 reassessment.

Second, for sales in newly platted areas, parcel numbers may not exist for the sale, and these sales are important as they are often vacant land sales used to establish land values. The current disconnect between the valuation and assessment dates allows the use of this critical information.

Third, there will be an availability issue for cost-based data that is critical for the state's value-in-use system. Most cost data from national sources is not available for 3-9 months after the fact. So, any cost data for a March 1, 2011 assessment and valuation date would not be readily available to the counties once the general reassessment begins, nor would it be available until some time beyond March 1, 2011. Awaiting current cost data will not allow for the timely completion of the next general reassessment

III. Cost Tables

In recent years, there has been discussion in the assessment community about the need for state-distributed cost tables. Nexus Group firmly believes that the DLGF should incorporate cost tables in a similar format to the 2002 manual. The only exception to this would be the inclusion of a tilt-up concrete wall model or schedule. Given the complexity of assessing real estate, the assessment community should not be limited to using only the sales comparison and income approaches to values. Further, more uniformity will exist throughout the state if all 92 counties start with the same cost-based approach to value.

IV. Depreciation Calculation

The depreciation calculation in Appendix B (pages 11-13 or pages 286-288 overall) should be using effective age, not year built.

2011 Real Property Assessment Manual

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Nexus Group Draft

Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. Current Indiana law as well as Administrative Code also provides for annual adjustments of real property assessments after that date. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011 assessment date and forward. It includes a number of revisions from the 2002 Indiana Real Property Assessment Manual.

The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:

> a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.[1]

IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the Department of Local Government Finance." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the Department of Local Government Finance to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.

True tax value, therefore, is defined as:

> The market value-in-use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property

It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides a definition of true tax value and general rules for assessing property, situations may arise that are not explained or preliminary assessments may exist that are inconsistent with this definition. In those cases the assessor **shall** be expected to adjust the assessment to comply with this definition. It is therefore the Assessor's responsibility to arrive at an estimate of true tax value (market value-in-use) for every parcel within their jurisdiction and to ensure that each such assessment is fair, equitable and uniform.

In instances where the Assessor has made an error in the overall value of the parcel, either high or low, the Assessor is expected and required to adjust the assessment to obtain the best estimate of true tax value for the valuation date in question. However, an assessment error on one parcel should not be compounded by applying that error to other parcels, no matter how similar. The erroneous parcel (or group of parcels) should be corrected, so as to create more accurate and uniform assessments for all parcels.

The Assessor shall apply whatever valuation methods (cost, sales and/or income) deemed appropriate for the particular parcel. In some cases, the cost approach may yield the most valid estimate of true tax value. For example, actual and/or market construction cost should be a

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prime consideration for recently constructed improvements. Sales and/or income approaches often yield better estimates of value for income-producing property. In keeping with various decisions of the Indiana Tax Court, a fair, accurate and uniform "bottom-line" assessment of property is the goal of the Assessor. Regardless of the application of any subjective elements in the assessment, the only aspect of the assessment subject to appeal is the final assessment of the parcel.

By 2011, Indiana Assessor's will have nine (9) years of experience in establishing market value-in-use assessments. This time period has allowed the assessment system to greatly reduce the discrepancies that existed in assessments under the prior "cost less depreciation" system (prior to 2002) and a use value system (since 2002). Data indicates that assessments of all property types have improved over this time period, in terms of both equity and uniformity. Any change to the underlying valuation concept would create unnecessary upheaval and be disruptive to the fair, equitable and uniform system required in Article X of the Indiana Constitution.

The General Reassessment will have an assessment date of March 1, 2011. The valuation date for real property for that reassessment shall be as of January 1, 2010. The difference between the valuation date and the assessment permits the Assessor to gather sales and other data bracketing the valuation date so as to provide the most accurate estimate of value. Sales preceding and following the valuation date can and should be used so as to ascertain the most accurate market value-in-use estimate. The Annual Adjustment procedure outlined in 50 IAC 21 shall likewise be implemented so as to retain this small lag between the assessment date and the valuation date.

Use value and a pure market value system produce similar assessments on many properties. However, in some instances the two approaches may produce radically different values. Indiana has recently chosen to enact legislation that places maximum property tax payments based on the classification, use and assessment of property. Those maximums are premised on the existing definition of property wealth. This Manual shall not override legislative intent.

As a use value concept, a recent sale of the parcel itself in an arm's-length transaction is the best indicator of true tax value. However, on parcels that have not transacted recently, the Assessor shall estimate true tax value based on the application of the various approaches to value, each given the appropriate weight for the particular parcel and circumstances.

The comparability of property requires a comparable use. Sales of houses with a residential use are typically the best comparable to ascertain the value-in-use of a house used as a residence. Sales of vacant land are the best indicator of land value, so long as the use of the land is consistent with the intent of the purchaser. For commercial and industrial property, sales of real estate with a similar use are often good indicators of property wealth. However, sales of vacant, unused structures are only indicative of value of similar, vacant structures and may provide less insight as to the use value of occupied structures with various uses. The value of any personal property involved in a transaction should be removed from the sales price in order to produce a better estimate of real property wealth.

Based on the decisions provided by prior court rulings, the basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under

Legislative Council Draft

a value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:

Use Value: The value a specific property has for a specific use.[2]

[1] State Board of Tax Commissioners v. Town of St. John, 702 N.E.2d 1034, 1040 (Ind. 1998).

Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property. The first approach, known as the cost approach, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the sales comparison approach, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the income approach, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization.

All three of these approaches, when properly processed, should produce similar estimates of value. Fee appraisers often use at least two of these three approaches when appraising individual properties, but the final estimate of value is based on their opinion of the most applicable method, or weighting between methods, for the particular property. For most but not all residential property, the appraiser often only considers the sales comparison approach, as it is the most indicative of both use value and pure market value. Assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment. For certain parcels, the Assessor may not have the requisite data to apply all three approaches to each property. The Assessor should consider all possible methods of ascertaining market value-in-use for property, but the final estimate must necessarily involve their estimate of value by any and all methods. Comparable property wealth may be the best estimate of value in such instances. A single approach to value is not appropriate for all types of property in all situations.

Special purpose property means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. Special-purpose properties often have very different property wealth estimates under market value-in-use as opposed to market value-in-exchange, or so-called "most probable price" definitions. Certain structures, while in use, generate great value to the owner. Examples might include utility generating stations, steel mills and refineries. Vacant, unused special purpose structure might have little or no market value, indeed, perhaps only a net land value. However, use value yields a substantially different estimate of property wealth. Further, from a use value perspective, the environmental contamination that might exist at a special purpose property would have no impact on the use value of the property, since the prior use, current use and future use of the real estate are similar. The environmental damage to the land might only be recognized if and when the property were re-developed for a different use, leading to a different estimate of use value. Use value may be estimated using a variety of techniques, including but not limited to: cost less depreciation, sales of similar facilities while in use for the intended purpose of the structure to a similar user, sales of similar entities/structures valued on an output basis, net present value of benefits from the continued use of the present site, etc.

DRAFT

As noted previously, most types of fair market value data or valuation methods may be used to calculate True Tax Values, so long as the use value of property is the final outcome. Fee appraisals of the subject property, or comparable sales approaches, that estimate the market value of improvements may be considered in determining true tax value if they are based on the value-in-use standard and utilize market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts.

This methodology meets the court's recent ruling that each taxpayer does not have the right to "absolute and precise exactitude as to the uniformity and equality of each individual assessment...nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax appeals"[3]. The analysis relies in whole or in part, on sales data of comparable property, cost estimates, income capitalization and industry-wide data in adjusting for depreciation. In doing so incorporates objective and verifiable data. Appeal of assessments must operate within the rules and utilize data in the same manner as provided in this manual. In general, this requires that challenges to assessments be proven with aggregate data, rather than individual evidence of property wealth. Since assessments are calculated using aggregate data, it is not permissible to use individual data without first establishing its comparability or lack thereof to the aggregate data.

There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual. Such evidence may include actual construction costs, sales information regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles. The validity of the assessment shall be evaluated on the basis of **all** relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether it reflects the property's true tax value as defined in this manual.

Not Official Draft

Further definitions that help to explain the concepts explained in this introduction include value and property wealth:

Value: Use value, the value a specific property has for a specific use.

Property Wealth: The abundance of economic utility realized from property rights.

[3]State Board of Tax Commissioners v. Town of St. John,702 N.E.2d 1034 (Ind. 1998).

Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value. The county assessor shall utilize assessment studies, as provided in 50 IAC 14 and elsewhere, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, including the appropriate strata, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Reference: Standard on Ratio Studies, International Association of Assessing Officers, August 2007.

Concept

The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method, or combination thereof, to arrive at that value. The important considerations in choosing a mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.

Nexus Group Draft

Wolter, Catherine

From: Rushenberg, Tim
Sent: Monday, June 09, 2008 8:12 AM
To: Wolter, Catherine
Subject: FW: Memo for Manual

Attachments: Draft Hearing Memo.doc

Draft Hearing Memo.doc (46 KB)...

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: David Bottorff [mailto:dbottorff@indianacounties.org]
Sent: Sunday, June 08, 2008 1:59 PM
To: Rushenberg, Tim
Subject: Memo for Manual

Tim,

I will bring a copy of my memo on letterhead to the meeting Monday morning. Have you seen the Journal Gazette article in today's paper?

http://www.journalgazette.net/apps/pbcs.dll/article?AID=2008806080432

David A. Bottorff
Executive Director
Association of Indiana Counties
Telephone (317) 684-3710
Fax (317) 684-3713

MEMORANDUM

To: Cheryl Musgrave, Commissioner, Department of Local Government Finance

From: David A. Bottorff, Executive Director Association of Indiana Counties

Date: June 10, 2008

Re: Reassessment Manual

On behalf of the Association of Indiana Counties, I would urge minimal changes to the manual. Local officials administering the property tax system, and more importantly citizens, need to see some stability and continuity in the property tax system. Continuous changes to the system have led to delayed tax bills, confusion among taxpayers and unanticipated property tax increases for some properties.

- I would urge you to keep "market value in use" that is a part of the current manual. We believe the "most probable price" concept could create unexpected tax shifts between classes of property.

- House Enrolled Act 1001 was analyzed using the current value in use concept. Although fiscal analysis was only projected out to 2010, changing to highest and best use could change some of the taxpayer protections that were a part of HEA 1001.

- Obviously the cost tables need to be updated as apart of the manual. Everyone needs a "central starting point" but maximum flexibility should be provided for local assessors to take into consideration location and changes in cost from year to year. The DLGF reassessment rule should contain cost tables but then have the DLGF issue current cost multipliers to assessing officials each year or the county could develop their own updates based on local information.

- IAAO standards should be used as the norm for equalization. This standard of ten percent (10%) on either side of the value provides a reasonable and constructive range for measuring mass appraisal methods.

- The assessment date and the valuation date should be condensed. However, they should not the same day. Assessors need to time to evaluate sales for validity and analyze the sales and sales disclosure forms. March 1, 2011 the valuation date should be March 1, 2010.

IACED TESTIMONY IN OPPOSITION TO THE DEPARTMENT OF LOCAL GOVERNMENT FINANCE FOR THE 2011 GENERAL REASSESSMENT

Madam Commissioner. I am Andy Fraizer, the Executive Director of the Indiana Association for Community Economic Development. IACED's membership includes community development corporations, community action agencies, area agencies on aging and other organizations and entities that develop affordable housing for individuals and families. Our members develop affordable housing for low income individuals and families through Sections 501(c)(3) and 42 of the Internal Revenue Code. Our voting members are tax-exempt, charitable organizations under the Internal Revenue Code, and develop affordable housing in furtherance of their charitable missions. Today, I am here to specifically address the negative impact that the Proposed Rules will have on Section 42 or Low Income Housing Tax Credit ("LIHTC") properties. The federal government allocates Low Income Housing Tax Credits to states based on population. The Indiana Housing and Community Development Authority ("IHCDA") is the state agency that administers the LIHTC program in Indiana. IHCDA awards tax credits to developers on a competitive basis. Those developers who best meet the criteria as determined by IHCDA on an annual basis are awarded the credits. Developers who are awarded tax credits syndicate those credits to investors in exchange for the equity investment needed to develop and construct the properties.

Under the LIHTC program, tax credits are available for the development of affordable rental housing for individuals and families who earn no more than 60% of the Area Median Income ("AMI"). In fact, many LIHTC properties include units that are set aside for individuals and families earning far below 60% of AMI, including units

reserved for 30% and 40% AMI households. In addition to the income restrictions applicable to these properties, rent levels are limited to amounts that are considered affordable at these income levels. In addition, many LIHTC properties include units set aside for people with disabilities and/or formerly homeless tenants. Finally, some Section 42 properties are designated exclusively or predominantly for the elderly. As required under the Section 42 program, each developer must covenant to maintain the property as affordable for at least 30 years, and those covenants are included in deed restrictions that run with the property.

Prior to receiving a final allocation of tax credits, every developer must demonstrate, through a set of comprehensive financial projections, that the development is and will remain financially viable for at least 15 years. Because of the tenant income and rent limitations described above, LIHTC properties generally produce no, or very little, net cash flow after the payment of operating expenses and debt. While rental revenues are restricted and therefore lower than rents for market-rate apartments, operating expenses for LIHTC properties are typically higher than their market-rate counterparts, due mainly to the challenging tenant populations that the properties serve. Property taxes are a major expense of LIHTC properties, therefore, it is critical that property taxes remain stable on the properties throughout their life cycle. A dramatic increase in property taxes can and will cause an affordable LIHTC property to fail.

Under the current value-in-use standard, along with Ind. Code §§ 6-1.1-4-40 and 41, which require assessors to use the income approach in assessing the properties and prohibit assessors from including the intangible value of the federal income tax credits in the assessment, LIHTC properties are generally assessed and taxed at levels that are

consistent with the 15-year financial projections prepared and submitted to IHCDA at the time the tax credits were awarded, and under which the property can remain viable.

If the DLGF replaces the value-in-use standard with a strict market value-in-exchange standard that incorporates the principle of "highest and best use," assessors may determine that the "highest and best use" of an LIHTC property is as a market rate property (i.e., a property without income or rent limitations). Specifically, assessors may use this change to argue that market rents, rather than the lower, restricted LIHTC rents, and market expense, rather than the higher LIHTC expenses, should be used, when applying the income approach. Using this artificial, market-level financial data, rather than the actual financial information for an LIHTC property, could increase the assessed value of LIHTC properties by 100% to 200%.

If the DLGF determines to incorporate a strict, market value standard in its Proposed Rules for the 2011 Reassessment, IACED and its members request that the DLGF make a specific exemption for LIHTC properties as it did for farm land. This will ensure that the statutory relief enacted by the Indiana legislature for LIHTC properties, which IACED and its membership strongly supported, will not be effectively reversed or lessened.

Affordable housing is important; it provides a benefit to the entire community, as well as its immediate beneficiaries. It fulfills a basic human need for safe, clean, and secure shelter for those who otherwise could not afford to live in market rate property. It contributes to the well-being of both parents and children. Studies show that children living in stable housing perform better in school. Affordable housing helps to attract and retain employees – a selling point and a competitive advantage for current and potential

employers. It supports the local workforce so that workers can live close to jobs. The construction of affordable housing helps to stimulate economic growth. A healthy mix of housing options, including affordable rental housing, provides opportunities for individuals and families to improve their economic situation and become contributing members of society. Attached is suggested language that ensures that the proposed 2011 Reassessment Guidelines will not impede the financial viability of LIHTC property, and all other affordable housing, under any state or federal program. The suggested language ensure that affordable housing is assessed based on its income as affordable housing, rather than at its potential income.

Madam Commissioner, thank you again for your attention to this matter.

Amendment #1

Mission of Reassessment

The mission of a reassessment is to inventory, verify, and value all real estate parcels. This process distributes the property tax burden in a uniform and equitable manner. The reassessment of real property includes the following:

- Land
- Buildings and fixtures situated on the land
- Appurtenances to land
- An estate in land or an estate, right, or privilege in mines located on the land or minerals located in the land if the estate, right, or privilege is distinct from the ownership of the surface of the land.

Residential, commercial and industrial land, and agricultural home sites are valued on values established by the assessing official. The primary method for valuing buildings and other improvements is the cost of replacing the improvement minus depreciation, but the comparable sales approach and capitalized income approach may be used by the assessor if shown to be applicable, **and must be used if required by law**.

Amendment #2

Chapter 6 Commercial and Industrial Units

* * *

~~There shall be a~~ **There is a** presumption that the reproduction or replacement cost determined by the prescribed schedules is the actual reproduction or replacement cost of the subject structure for purposes of determining true tax value. However, either the assessing officials or a taxpayer ~~shall be permitted to consider and~~ **may** use other relevant and reliable information to rebut ~~such~~ **the** presumption and establish the actual reproduction or replacement cost~~, if the information was readily available to the assessor and taxpayer at the time the assessed value was set~~.

Assessors must assess certain types of properties, using the capitalization of income or the sales comparison approach. Assessors must assess:

- **residential property that is:**
  - **leased for 30 days or more; and**
  - **has four (4) or more units; and**

- riverboats, as defined in IC 4-33-2-17

at the lowest of the of the three approaches to value:

- Cost approach that includes an estimated reproduction or replacement cost of buildings and land improvements as of the date of valuation together with estimates of the losses in value that have taken place due to wear and tear, design, and plan or neighborhood influences;
- Sales comparison approach, using data for generally comparable property.
- Income capitalization approach, using an applicable capitalization method and appropriate capitalization rates that are developed and used in computations that lead to an indication of value commensurate with the risks for the subject property use.

"Affordable Housing" means residential rental housing that is leased, under a federal or state program, at affordable rates, as determined by the United States Department of Housing and Urban Development, to individuals and families earning at or below 80% of the Area Median Income.

"Sec. 42 Property" means property developed and operating under Sec. 42 of the Internal Revenue Code.

In assessing Affordable Housing, assessors must use:

- actual or restricted rents, rather than market rents; and
- actual or affordable housing market expenses, rather than expenses for market rate residential rental property.

In assessing Sec. 42 Property, assessors shall use the capitalization of income approach to valuation. However, the assessment may not be less than the amount necessary to arrive at a tax liability for the property that is less than 5% of the previous year's total gross rent received from the rental of all units in the property. Under no circumstances may an assessor include in the assessed value the value of the federal income tax credits awarded under Section 42 of the Internal Revenue Code.

Amendment #3

Appendix F Commercial and Industrial Depreciation

Calculating Total Depreciation
for Income Producing Properties

* * *

Other more sophisticated versions of the capitalized income approach may be used to determine total depreciation if based on reliable and relevant data~~, if the data was readily available to the assessor at the time the assessed value was set~~.

SCHUCKIT
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2011 Reassessment Manual
Comments Regarding the Implications of a Change in the Definition of True Tax Value from Market Value-in-Use to Fair Market Value

Reasons for the Market Value-in-Use Definition in the 2002 Reassessment Manual

The 2002 Reassessment Manual, as amended, adopted a definition of True Tax Value as follows:

> The market value-in-use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property.

2002 Real Property Assessment Manual (hereinafter, Manual) (incorporated by reference at 50 IAC 2.3-1-2) at 2.

There were four main reasons that the State Board of Tax Commissioners adopted this standard:

1. A value in use standard ("VIU standard") focuses on the value of real property to the owner for its current use and does not provide a disincentive for an owner to maintain that use. Thus, valuing property based upon its current use provides a standard that maintains stability. In addition, the VIU standard provides a sound basis for agricultural land to be valued based on its current use, rather than for its potential use.
2. Under a value in exchange standard ("VIE standard"), a property's highest and best use must be considered. Under the VIE standard, residences in a commercial zone or where rental property is the predominant use, as in college towns, would be valued based upon their highest and best use, which may have an adverse effect on homes and neighborhoods.
3. Value in use recognizes that the real property associated with industrial properties and special use properties has utility to the owner that is not adequately measured by its potential sale value. Such properties when sold typically sell for far less than the value measured by the utility to the current owner while used for its income-producing capability.
4. The statute defining true tax value states that "True tax value does not mean fair market value." IC 6-1.1-31-6(c). The State Tax Board believed that the General Assembly had expressed its preference that true tax value should not mean fair market value. A change to fair market value, or value in exchange, as the basis for determining true tax value appears inconsistent to the legislative intent.

At this juncture, the Department of Local Government Finance has promulgated a proposed rule that would change the definition of true tax value for purposes of the 2011 Reassessment from "market value in use" to "fair market value," or value in exchange. The undersigned respectfully urges the Department to consider carefully the effects of such a change and to determine to remain with the market value in use standard.

Below is a summary of the grounds for this request.

1. **Legislative Intent.** This past legislative session, the General Assembly enacted far-reaching property tax legislation (HEA 1001-2008) premised on fiscal analyses projecting property tax burdens and circuit breaker credits based upon a presumed continuation of the value-in-use definition of true tax value. Such a significant policy change as changing from value in use to value in exchange should not take place absent the General Assembly's direction and concurrence.
2. **Policy Making in Taxation Should Be Reserved to the General Assembly.** The undersigned respectfully submits that policy changes as significant as a change to value in exchange should be fully vetted through a legislative session. When the undersigned was on staff at the Department, the Department determined to make sweeping changes in the valuation of personal property by rule, a change that the General Assembly ultimately vetoed. Far-reaching policy changes affecting taxation and the valuation of property must be fully vetted and approved by the General Assembly. The Department's broad powers in implementing the legislative will is counter-balanced by the General Assembly's unsurpassed role in setting tax policy for this State.
3. **Full Fiscal Analysis Not Performed.** Plainly, a change to value in exchange will create a new set of winners and losers in the property tax arena. With the changes that will take effect in 2010, the biggest losers are likely to be local governments and income tax payers, i.e., homeowners. The General Assembly will also have to address any marked change in the tax burdens of both and might be forced to take on even more burdens at the state level. The Legislative Services Administration estimates that by 2010, local government will have lost property tax revenues exceeding $500 million as a result of HEA 1001-2008. *See* LSA's Analysis of Potential Circuit Breaker Credits, http://www.in.gov/legislative/pdf/HEA1001_CIRCUITBREAKER_20080317.PDF (visited June 8, 2008). A change in the method of the valuation of real property for the 2011 Reassessment should not take place absent a full fiscal analysis of the effect of such a change on local governments and taxpayers.
4. **Winners.** The likely winners as a result of a change to value in use are certain commercial and industrial taxpayers. Based upon appeals, appraisals, and case law in other states, a downward adjustment of value from 50 to 80 percent in larger and older industrial properties is highly likely. These downward adjustments are likely to hit in counties most affected by the HEA 1001-2008 changes. The shift from value-in-use to value-in-exchange results in an overall tax increase to homeowners via either higher property taxes and/or increases in other taxes paid disproportionately by homeowners.
    a. The Appraisal Institute's text, *the Appraisal of Real Estate, Twelfth Ed.,* specifically recognizes that "An older factory that is still used by the original firm may have considerable use value to that firm but only a nominal market value for another use." *Id* at 25.

b. Included with these comments is a copy of *F & M Schaeffer Brewing Co. v. Lehigh County Bd. of Appeals. 530 Pa. 451, 610 A. 2d 1* (Pa.,1992), in which the Pennsylvania Supreme Court compared the value of a brewery under a value-in-use standard at $34 million vs. a value-in-exchange standard at $9.5 million.

5. **Losers.** The taxpayers most likely to suffer an increased valuation as a result of a change to value in exchange are farmers and homeowners.
   a. The value in use standard provides a consistent standard that upholds the valuation of farmland based upon its value as farmland and also permits homes in vulnerable or transitional areas to be valued based upon their current use rather than their highest and best use. While the Department proposes to continue to value farmland based upon a different standard than value in exchange, there are constitutional concerns in valuing similar properties based on disparate standards.
   b. As noted above, a change to value in use will likely result in additional circuit breaker credits, which means that, absent additional cuts in local services, local government will likely look to local income tax payers to make up the difference.
6. **The Likelihood of Continued Instability.** A change in the method for valuing real property will engender more appeals and more uncertainty just at a time when stability may finally be on the horizon.
7. **Changes in the Market Value-in-Use Definition and Suggested Guidance.** The fact that the undersigned recommends continued use of the value in use definition does not mean that no changes should be made in the existing Manual and concepts. Attached to these comments are *Suggested Modifications to the 2002 Real Property Assessment Manual, for Incorporation in the 2011 Real Property Assessment Manual.*

In sum, there are no compelling reasons to change Indiana's valuation standard. The current standard uniquely fits Indiana's needs and Indiana's constitutional strictures. The market value in use system achieves stability, equity and uniformity and upholds the Indiana General Assembly's expressed view that the true tax value does not mean fair market value. Value-in-use undoubtedly preserves agricultural assessments in their present form and contributes to the stability of residential neighborhoods.

The vast majority of taxpayers in the state of Indiana would be adversely affected by a change to value-in-exchange. This commenter respectfully asks the Department to consider the attached suggested changes in the 2002 Manual and to modify its proposed rule accordingly.

Respectfully submitted,

Beth H. Henkel
Attorney at Law

Schuckit & Associates

▷F & M Schaeffer Brewing Co. v. Lehigh County Bd. of Appeals
Pa.,1992.

Supreme Court of Pennsylvania.
F & M SCHAEFFER BREWING COMPANY: c/o Stroh Brewing Company, Appellant,
v.
LEHIGH COUNTY BOARD OF APPEALS and County of Lehigh, Appellees.
Argued Jan. 22, 1992.
Decided May 18, 1992.

Brewery challenged county's tax assessment of its property. The Common Pleas Court, Lehigh County, Nos. 83-C-3255, 83-C-3418, 84-C-1899, 86-C-812,John E. Backenstoe, J., accepted county expert's fair market value determination. Taxpayer appealed. The Commonwealth Court, Nos. 588-591 C.D. 1989,Barry, Senior Judge,133 Pa.Cmwlth. 197, 575 A.2d 649, affirmed. Taxpayer appealed. The Supreme Court, No. 67 E.D. Appeal Docket 1991,Larsen, J., held that: (1) use of replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use was impermissible method of determining **fairmarketvalue** for **propertytax** purposes, and (2) valuation methodology which considered subject **property's** machinery and equipment was impermissible.

Reversed and remanded.

Nix, C.J., and Flaherty, Zappala, and Cappy, JJ., concurred in result.

West Headnotes

[1] Taxation 371 ⚿2515

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2515 k. Market Value and Sale Price; Comparable Sales. Most Cited Cases
(Formerly 371k348(3))
"Actual value," for purposes of real **property** taxation, is market value or **fairmarketvalue**, which in turn is defined as price which purchaser, willing but not obliged to pay, would pay owner, willing but not obliged to sell, taking into consideration all uses to which **property** is adapted and might in reason be applied. 72 P.S. §§ 5020-402, 5348(d).

[2] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
"Use value" or "value-in-use," for purposes of **propertytax** valuation, represents value to specific user and, hence, does not represent **fairmarketvalue**.

[3] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
Property's use and its resulting value-in-use cannot be considered in assessing **fairmarketvalue** of **property** for **tax** assessment purposes. 72 P.S. §§ 5020-402, 5348(d).

[4] Taxation 371 ⚿2516

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2516 k. Replacement Cost; Depreciation and Obsolescence. Most Cited Cases

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(Formerly 371k348(4))
Use of replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use in valuing real **property** for **propertytax** purposes was impermissible.

[5] Taxation 371 ⚿2514

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2514 k. Matters Considered and Methods of Valuation in General. Most Cited Cases
(Formerly 371k348(2.1), 371k348(2))
Mere fact that legislature mandated consideration of all three approaches to valuation **property** including value-in-use did not mean that value-in-use was relevant in **tax** assessment cases. 72 P.S. §§ 5020-402, 5348(d).

[6] Taxation 371 ⚿2516

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2516 k. Replacement Cost; Depreciation and Obsolescence. Most Cited Cases
(Formerly 371k348(4))
Using replacement cost approach contingent upon subject **property's** use as brewery and value of **property** for that use in calculating **fairmarketvalue** for **propertytax** purposes was not justified on basis that **property** fell into "special purpose" **property** category; consideration of value in use was no more relevant under guise of "special purpose" **property** than it was for any other **property**. 72 P.S. §§ 5020-402, 5348(d).

[7] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
Valuation methodology for real **propertytax** purposes which indirectly considered value of machinery and equipment of subject **property** was impermissible. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

[8] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
Under machinery and equipment exclusion of general county assessment law, traditional Pennsylvania law of fixtures and assembled **industrial** plant doctrine do not apply when defining real estate for **tax** assessment purposes; thus, in context of **propertytax** assessment law, not only are machinery and equipment to be excluded from value of real estate but they are not even to be considered in determining **fairmarketvalue** of **industrialproperty** for **tax** assessment purposes. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

[9] Taxation 371 ⚿2518

371 Taxation
371III**Property** Taxes
371III(H) Levy and Assessment
371III(H)5 Valuation of **Property**
371k2512 Real **Property** in General
371k2518 k. Appurtenances, Easements, and Improvements. Most Cited Cases
(Formerly 371k348(6))
In view of public policy considerations, it is not sufficient only to exclude machinery and equipment from direct inclusion in assessable real estate valuation for **propertytax** purposes; to give exclusion proper effect, assessed value of **industrial** real estate must not, in any way, reflect consideration of value of machinery and equipment. 72 P.S. § 5020-201(a); 26 P.S. § 1-603(3).

****2*454**John E. Garippa, Seth I. Davenport, Montclair, N.J., for appellant.

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Anthony R. Thompson, Allentown, (for amicus curiae Pennsylvania Chamber of Business and Industry and Institute of Property Taxation).
Al Hettinger, Frank J. Madey, Allentown, William E. Schantz, Sol. for Upper Macungie, for appellees.

Before NIX, C.J., and LARSEN, FLAHERTY, McDERMOTT, ZAPPALA, PAPADAKOS and CAPPY, JJ.

OPINION ANNOUNCING THE JUDGMENT OF THE COURT

LARSEN, Justice.
Appellant F & M Schaeffer Brewing Company, c/o Stroh Brewing Company appeals from the order of the Commonwealth Court affirming the denial of appellant's tax assessment appeal by the Lehigh County Court of Common Pleas, which determined that appellant's property had a fair market value of $34 million for the years 1984-1988 and that the property's assessed value was $8,432,000 for 1984; $8,058,000 for 1985; $7,548,000 for 1986; $6,936,000 for 1987; and $6,120,000 for 1988.

The trial court described the subject property as follows:

The subject property involved is a 791,382 square foot facility situated on 62.243 acres of land located on the south side of U.S. Route 22 and on the west side of Pennsylvania Route 100 in Upper Macungie Township. *455 In 1971 a brewery was built on the land by the F & M Schaeffer Brewing Co. and subsequently in 1981, the property was acquired by the Stroh Brewing Co. The bulk of the building area is contained in one large, irregularly shaped manufacturing office and warehouse plant. In addition there are numerous small special purpose buildings located on the southwest side of the main plant.

The plant was built by F & M Schaeffer specifically to produce beer. At the northwest end of the main plant are the tall six story brew houses. In 1982 a new brew house was added to accommodate the special fire brewing process for the production of Stroh's beer. Adjacent to the brew houses are the large silos which contain the grains used in the production of beer. Behind the silos is an interior rail shed which allows grains to be pumped from railroad cars into the silo storage area. Once the beer is brewed it is pumped into fermenter cellars adjacent to the rail shed and eventually it is stored in large storage cellars.

In the middle of the building is a 2 story office section. The office building contains the Stroh House which is a room for entertaining visitors. From the office section there is a visitors walkway for tours of the plant.

The rear portion of the plant is used for packaging and warehousing. Within this area there are elaborate packaging systems for bottling and canning the various beer products. Within the large warehouse there are three sections for keg washing, full keg storage and empty keg storage. In 1976 an addition was made to the warehouse to increase storage capacity. Outside the main building are various small support buildings which include additional warehouses, a **3 garage, a waste recovery building a waste pre-treatment facility, a water recirculation building and a security building. The subject facility, with its attendant equipment, is capable of producing 3,500,000 barrels of beer annually.

Opinion of the Trial Court at pp. 2-3.

The subject property was assessed at a fair market value of $34 million in 1984. Appellant appealed the assessment *456 to the Lehigh County Board of Assessment Appeals, which denied the appeal. Appellant then sought *de novo* review by the Court of Common Pleas. Thereafter, the County of Lehigh intervened.

Before the Court of Common Pleas, the parties stipulated to the applicable common level ratios [FN1] and presented expert testimony regarding the valuation of the subject property. Appellees' experts testified that the property's fair market value was $34 million. In arriving at this figure, appellees' experts testified that they first determined that the property's highest and best use was a "special purpose" brewery and then applied a replacement cost valuation approach based specifically on the amount of beer produced at the facility. Appellant's expert, on the other hand, testified that the fair market value was $9.5 million based on a comparable sales valuation approach. After hearing all of the evidence, the trial court rejected appellant's expert testimony and

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concluded that the property's fair market value was $34 million. The Commonwealth Court affirmed. We granted appellant's petition for allowance of appeal and now reverse.

> FN1. The applicable common level ratios were: 24.8% for 1984; 23.7% for 1985; 22.2% for 1986; 20.4% for 1987; and 18% for 1988.

Appellant contends that the assessment does not reflect the fair market value of the property because the valuation methodology relied on by the trial court impermissibly employed a value-in-use standard to arrive at fair market value. Specifically, appellant claims that appellees' experts erroneously considered the value-in-use of the subject property by first estimating the property's highest and best use (ie ... a brewery) and then applying a replacement cost approach based on the utility of the property for that use (ie ... the production of 3.5 million barrels of beer per year).

[1] Real estate is required to be assessed according to the "actual value thereof." 72 P.S. § 5020-402. The legislature has mandated that, in determining actual value, three approaches to valuation be used, namely, 1) cost (reproduction or replacement, as applicable, less depreciation and all *457 forms of obsolescence), 2) comparable sales and 3) income approaches, and all three must be considered in conjunction with one another. 72 P.S. §§ 5020-402, 5348(d). The term "actual value" is defined as market value or fair market value, which in turn are defined as "the price which a purchaser, willing but not obliged to buy, would pay an owner, willing but not obliged to sell, taking into consideration all uses to which the property is adapted and might in reason be applied." *Buhl Foundation v. Board of Property Assessment,* 407 Pa. 567, 570, 180 A.2d 900, 902 (1962). "The actual or fair market value, while not easily ascertained, is fixed by the opinions of competent witnesses as to what the property is worth on the market at a fair sale." *Id.; Algon Realty Co. Tax Assessment Appeal,* 329 Pa. 321, 323, 198 A. 49, 50 (1938).

[2] In contrast, use value or value-in-use represents the value to a specific user and, hence, does not represent fair market value. Authorities in the field of real estate valuation distinguish between market value (or value-in-exchange) and use value:

> Use value is a concept based on the productivity of an economic good. Use value is the value a specific property has for a specific use.... Use value may vary, depending on the management of the property and external conditions such as changes in the business.... Real property may have a use value and a market value.

The Appraisal of Real Estate, American Institute of Real Estate Appraisers, (9th **4 ed., Chicago, 1987), cited in Appellant's Brief at p. 14. "Strictly speaking, value-in-use does not fit the criteria discussed in the definition of market value above [willing buyer/willing seller] and should not be considered equivalent to or a substitution for market value." ***Industrial** Real Estate,* Society of **Industrial** Realtors, (4th ed., Washington D.C., 1984), cited in Appellant's Brief at p. 14.

[3] Because value-in-use is based on the use of the **property** and the value of that use to the current user, it may result in a higher value than the value in the marketplace.*458 Value-in-use, therefore, is *not* a reflection of **fairmarketvalue** and is not relevant in **tax** assessment cases because only the **fairmarketvalue** (or value-in-exchange) is relevant in **tax** assessment cases.[FN2] *See McGraw-Edison Company v. Washington County Board of Assessment Appeals,* 132 Pa.Cmwlth. 437, 443, 573 A.2d 248, 251 (1990); *Pittsburgh-Des Moines Steel Co., Inc. v. McLaughlin,* 77 Pa.Cmwlth. 565, 466 A.2d 1092 (1983). Thus, we hold that a **property's** use and its resulting value-in-use cannot be considered in assessing the **fairmarketvalue** of **property** for **tax** assessment purposes in Pennsylvania.

> FN2. We note that, while value-in-use cannot be considered in **tax** assessment cases, it must be considered in condemnation cases because the Eminent Domain Code specifically defines **fairmarketvalue** so as to encompass value-in-use principles. Section 1-603 of the Eminent Domain Code provides:
>
> **Fairmarketvalue** shall be the price which would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the

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following factors:

(1) The present use of the **property** and its value for such use.

(2) The highest and best reasonably available use of the **property** and its value for such use.

(3) The machinery, equipment and fixtures forming part of the real estate taken.

(4) Other factors as to which evidence may be offered as provided by Article VII.

26 P.S. § 1-603.

[4] Despite this Commonwealth's historical aversion to the consideration of value-in-use in **propertytax** assessment cases, appellees contend, and the courts below agreed, that the legislature's inclusion of the cost valuation approach in the **tax** assessment statutes made value-in-use relevant. The Commonwealth Court, opined that:

... before the legislature approved the cost approach, only a **property's** value-in-exchange **[fairmarketvalue]** was relevant in **tax** assessment cases. *Pittsburgh-Des Moines Steel.* However, a cost approach now has probative value in fixing **property** value for **tax** assessment purposes. *Reichard-Coulston [Inc., v. Revenue Appeals Board of Northampton County,* 102 Pa.Cmwlth. 227, 517 A.2d 1372 (1986)]. Under a cost approach, when the highest and best use of the **property** is continuing the ***459property's** existing use, the **property's** value to the current user logically is relevant to determine the reproduction or the replacement cost of the facility.

* * * * * *

Although the trial court rejected the value-in-use method, it implicitly applied value-in-use analysis to determine the brewery's replacement cost, as required under *Reichard-Coulston.* Because the trial court correctly determined the property's fair market value by using that cost approach, we conclude that the trial court committed no error....

F & M Schaeffer Brewing Co. v. Lehigh County Board of Appeals, 133 Pa.Cmwlth. 197, 203, 204, 575 A.2d 649, 652, 653 (1990).

[5] The courts below ignored the fact that real estate is still required to be assessed according to its fair market value, which by definition precludes consideration of value-in-use. The mere fact that the legislature mandated consideration of all three approaches to valuation does not mean that value-in-use is now relevant in tax assessment cases. The cost valuation approach must be employed in such a manner that a property's use and resulting value-in-use are not considered.

Therein lies the problem with the assessment in this case. In their determination of fair market value, appellees' experts improperly utilized a replacement cost approach****5** contingent upon the subject property's use as a brewery and the value of the property for that use (ie ... the production of 3.5 million barrels of beer annually). The experts first calculated the cost to replace the existing facility, including machinery and equipment. They did this by applying an industry standard of $50 per barrel of beer, which they lowered to $48 per barrel. Then, in order to factor out the machinery and equipment, they estimated a one-third real estate to two-thirds machinery and equipment ratio, which left them with a figure of $16 per barrel of beer. They multiplied the $16 figure by 3.5 million barrels of beer, subtracted depreciation and added the cost of the land to ***460** arrive at their estimated fair market value of $34 million. Appellees' experts never considered the size, shape or materials of their replacement model. Their valuation assessment simply replaced the existing facility with something of equivalent functional utility.

Thus, appellees' experts postulated a hypothetical model production plant with the only similarity to the subject property being its 3.5 million barrel per year capacity. They did so without any pretense of replicating the same physical characteristics of the actual real estate being assessed because their only aim was to value the property based on its use. The statutory language that sanctions the cost valuation approach does not permit a determination of fair market value that derives from a methodology that estimates the cost of a hypothetical, unspecific model

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that could vary completely in size, design and construction from that of the subject property. This misguided application of the cost valuation approach is clearly impermissible. The objective of a cost valuation approach is to estimate, as closely as possible, the cost to construct new the existing taxable real estate because that is, after all, the subject of the assessment-not the production process or use of the property.[FN3]

> FN3. Although other permissible cost valuation approaches were available, appellees' experts chose to ignore them. Appellees' experts did not consider the reproduction cost valuation approach, which estimates the cost to construct, at current prices, an exact replica of the property being appraised. Appellant's expert estimated the fair market value of the property using the reproduction cost approach to be $10.6 million. Additionally, appellees' experts disregarded two conventional methods of determining replacement cost valuation that do not consider the property's use. The first method, the unit-in-place method, is based upon cost estimates for major components of the property, and the second method, the engineering method, is based upon a very detailed breakdown of material and labor, with each item costed separately. All three methods, if considered, would have estimated the fair market value of the subject property without considering the property's value-in-use.

[6] Appellees, nonetheless, defend their valuation methodology because they claim the property falls into the "special purpose" property category, where valuation according*461 to use is the only proper method of valuation. The trial court defined "special purpose" property as:

"... property that is treated in the market as adapted to or designed and built for a special purpose. This definition combines both functional and structural aspects. A special purpose property becomes such either by its use for unique functions or by its distinctive specially designed structural details. The tax treatment of special purpose property is atypical and follows directly from this definition. Because the building is specially adapted to a unique use and will not readily be sold to another user, 'the very nature of special purpose property is such that market value cannot readily be determined by the existence of an actual market and therefore other methods of valuation such as reproduction cost must be resorted to.' " *McCannel v. County of Hennepin*, 301 N.W.2d 910, 924 (Minn.1980); *Federal Reserve Bank of Minneapolis v. State*, 313 N.W.2d 619 (Minn.1981); See also *Simmons Co. v. City of Linden, supra* [190 N.J.Super. 448], 464 A.2d 300 [(1983)].

Opinion of the Trial Court at pp. 12-13. Thus the trial court is saying that an appraiser can disregard, as non-probative, evidence of comparable sales and value a property exclusively by a cost valuation method-simply by labeling a property as **6 "special purpose." [FN4] Such a disregard for the cost, comparable sales and income approaches, is prohibited by 72 P.S. § 5020-402 and § 5348(d), both of which require that all three valuation approaches be considered. Moreover, valuation of **property** utilizing the "special purpose" **property** principle amounts to valuation according to value-in-use, which we have held to be an improper consideration in **propertytax** assessment cases. Consideration of value-in-use is no more relevant under the guise of "special *462 purpose" **property** than it is for any other **property**. It is an unacceptable consideration in **propertytax** assessment cases under all circumstances.[FN5]

> FN4. Especially troubling here is the expansive definition of "special purpose" **property** adopted by the trial court. Because almost all **industrial** real estate **properties** exhibit some peculiarities of design and use specific to the user's particular manufacturing processes, this broad definition could easily apply to most **industrialproperties**, leaving ample room for abuse.

> FN5. We emphasize, however, that our holding that value-in-use is not relevant in **propertytax** assessment cases does not preclude a **tax** that assesses business use or privilege.

[7][8] Appellant further argues that appellees' assessment is erroneous because inherent in its valuation methodology is the consideration of the

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subject **property's** machinery and equipment, which cannot legally be considered in **tax** assessment cases. Section 201 of the General County Assessment Law provides, in pertinent part, that:

... Machinery, tools, appliances and other equipment contained in any mill, mine, manufactory or **industrial** establishment shall not be considered or included as a part of the real estate in determining the value of such mill, mine, manufactory or **industrial** establishment....

72 P.S. § 5020-201(a).[FN6] Under this machinery and equipment exclusion, the traditional Pennsylvania law of fixtures and the assembled **industrial** plant doctrine do not apply when defining real estate for **tax** assessment purposes. *Jones and Laughlin Tax Assessment Case*, 405 Pa. 421, 175 A.2d 856 (1961). Thus, in the context of **propertytax** assessment law, not only are machinery and equipment to be excluded from the value of the real estate but they are not even to be considered in determining the **fairmarketvalue** of **industrialproperty** for **tax** assessment purposes.

> FN6. Once again, we must distinguish between **propertytax** assessment cases and condemnation cases, where the "machinery, equipment and fixtures forming part of the real estate taken" must be taken into consideration when determining **fairmarketvalue**. 26 P.S. § 1-603(3).

Appellees' experts, in the case herein, valued the subject **property** based on its production, and in doing so, they considered the **property's** machinery and equipment. Their analysis presupposes that the **property** will be sold as an ongoing brewery, which necessitates the use of the machinery and equipment, which are involved in the production of beer.

***463**[9] Appellees maintain that while the initial per barrel figure included the cost of the subject property's machinery and equipment, its experts eventually excluded the cost of the machinery and equipment by factoring out two-thirds of its $48 per barrel figure attributable to machinery and equipment. It is not enough, however, to exclude an arbitrary amount for machinery and equipment. By valuing the subject property based on its productive capacity appellees' experts indirectly *considered* the machinery and equipment. Section 5020-201(a) specifically states that machinery and equipment "shall not be considered or included as a part of the real estate...." The machinery and equipment exclusion clearly evidences a legislative intent and public policy to promote a favorable business climate in Pennsylvania by providing tax relief for Pennsylvania industries. *See Jones and Laughlin Tax Assessment Case* at 429, 175 A.2d at 860. In view of this public policy consideration, it is not sufficient only to exclude machinery and equipment from direct inclusion in the assessable real estate valuation. To give the exclusion proper effect, the assessed value of industrial real estate must not, in any way, reflect consideration of the value of the machinery and equipment. Otherwise, a ****7** subtle-but no less real-assessment of machinery and equipment will result.

Therefore, because the valuation adopted by the lower courts is based solely on evidence of improper considerations of value-in-use and machinery and equipment, the assessed valuation of $34 million cannot stand. *See Buhl Foundation v. Board of Property Assessment*, 407 Pa. 567, 570, 180 A.2d 900, 902 (1962). Accordingly, we reverse and remand for further proceedings consistent with this opinion.

NIX, C.J., and FLAHERTY, ZAPPALA and CAPPY, JJ., concur in the result.
Pa.,1992.
F & M Schaeffer Brewing Co. v. Lehigh County Bd. of Appeals
530 Pa. 451, 610 A.2d 1

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Suggested Modifications to the 2002 Real Property Assessment Manual, for Incorporation in the 2011 Real Property Assessment Manual

Submitted to the Department of Local Government Finance
By Beth H. Henkel, Attorney at Law, June 9, 2008.[1]

[Please compare these Comments with the 2002 REAL PROPERTY MANUAL. The following comments are recommended changes and clarifications to PAGE 2 of the 2002 Manual:]

Introduction

A general reassessment of all real property within the state is required as of March 1, 2011. Current Indiana law as well as Administrative Code also provides for annual adjustments of real property assessments after that date. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2011 assessment date and forward. It includes a number of revisions from the 2002 Indiana Real Property Assessment Manual.

The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:

> a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.[1]

IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the Department of Local Government Finance." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the ***Department of Local Government Finance*** to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.

True tax value, therefore, is defined as:

> The market value-in-use of a property for its current use, as reflected by

[1] The writer apologizes that these changes are not incorporated into the original 2002 Manual, but due to the fact that the 2002 Manual is not in Word format, the writer was unable to make these comments in a change-mode format. These comments and suggested changes should be read in conjunction with the text of the 2002 Real Property Assessment Manual provided with these comments and should be incorporated at the page numbers indicated in the attached version. Changes are marked in bold and italic.

the utility received by the owner or by a similar user ***at the same intensity of use of the property***

It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides a definition of true tax value and general rules for assessing property, situations may arise that are not explained or ***preliminary assessments may exist that are inconsistent with this definition. In those cases, the assessor shall adjust the assessment to comply with this definition. It is therefore the Assessor's responsibility to arrive at an estimate of true tax value (market value-in-use) for every parcel within their jurisdiction and to ensure that each such assessment is fair, equitable and uniform.***

In instances where the Assessor has made an error in the overall value of the parcel, either high or low, the Assessor is expected and required to adjust the assessment to obtain the best estimate of true tax value for the valuation date in question. Moreover, once an assessment error is discovered on one parcel, it should not be compounded by permitting that error to remain on other comparable parcels. The erroneous valuation on such parcel (or group of parcels) should be corrected, so as to create more accurate and uniform assessments for all parcels.

True tax value may be considered as the price that would induce the owner to sell the real property, and the price at which the buyer would purchase the real property for a continuation of use of the property for its current use. In markets in which sales are not representative of the utility to the owner, either because the utility derived is higher than indicated sales prices, or in markets where owners are motivated by non-market factors such as the maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange. ***The market value in use standard, does include a market value in exchange component in*** markets where there are regular exchanges ***for the current use,*** so that ask and offer prices converge.

The basis of True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under a value in use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value in use approach:

Use Value: The value a specific property has for a specific use.

Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383 (1993).

[*PLEASE REFER TO MARKED TEXT ON THE 2002 MANUAL, ATTACHMENT A.* LEAVE IN MOST OF CURRENT LANGUAGE, PAGE 3 OF THE 2002 MANUAL, AS SHOWN ON ATTACHMENT A, UP TO THE LAST PARAGRAPH ON THAT PAGE, THEN AS FOLLOWS]

Property wealth estimated by value-in-use often approximates value-in-exchange in instances where property types are frequently exchanged an dused by both buyer and seller for the same purpose. A good example of this outcome is a neighborhood retail center that is well occupied and maintained. ***Two examples of instances where property wealth under value-in-use will be different from value-in-exchange are (1)*** special purpose industrial properties where value-in-exchange occurs only infrequently and under special circumstances; ***and (2) single-family residential property in an area zoned commercial or in which rental property is the predominant use.***

[OMIT NEARLY ALL OF PAGE 4 OF THE 2002 MANUAL, EXCEPT, AS MODIFIED, THE FIRST PARAGRAPH ON PAGE 4.

[COMMENTS TO PAGE 5 OF THE 2002 MANUAL: BEGIN PAGE AS FOLLOWS]

Use value and a pure market value system produce similar assessments on many properties. However, in some instances the two approaches may produce radically different values. Indiana has recently chosen to enact legislation that places maximum property tax payments based on the classification, use and assessment of property. Those maximums are premised on the existing definition of property wealth. This Manual shall not override legislative intent.

As a use value concept, a recent sale of the parcel itself in an arm's-length transaction is the best indicator of true tax value. However, on parcels that have not transacted recently, the Assessor shall estimate true tax value based on the application of the various approaches to value, each given the appropriate weight for the particular parcel and circumstances.

The comparability of property requires a comparable use. Sales of houses with a residential use are typically the best comparable to ascertain the value-in-use of a house used as a residence. Sales of vacant land are the best indicator of land value, so long as the use of the land is consistent with the intent of the purchaser. For commercial and industrial property, sales of real estate with a similar use are often good indicators of property wealth. However, sales of vacant, unused structures are only indicative of value of similar, vacant structures and may provide less insight as to the use value of occupied structures with various uses. The value of any personal property involved in a

transaction should be removed from the sales price in order to produce a better estimate of real property wealth.

Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property. The first approach, known as the cost approach, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the sales comparison approach, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the income approach, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization.

All three of these approaches, when properly processed, should produce similar estimates of value. Fee appraisers often use at least two of these three approaches when appraising individual properties, but the final estimate of value is based on their opinion of the most applicable method, or weighting between methods, for the particular property. For most but not all residential property, the appraiser often only considers the sales comparison approach, as it is the most indicative of both use value and pure market value. Assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment. For certain parcels, the Assessor may not have the requisite data to apply all three approaches to each property. The Assessor should consider all possible methods of ascertaining market value-in-use for property, but the final estimate must necessarily involve their estimate of value by any and all methods. Comparable property wealth may be the best estimate of value in such instances. A single approach to value is not appropriate for all types of property in all situations.

The Assessor shall apply whatever valuation methods (cost, sales and/or income) deemed appropriate for the particular parcel. In some cases, the cost approach may yield the most valid estimate of true tax value. The cost approach may be a useful as a starting point in the valuation of special purpose or special design properties. See Appraisal Institute, Appraisal of Real Estate, Twelfth Ed. at 25-26. Sales and/or income approaches often yield appropriate estimates of value for income-producing property. This 2011 Manual maintains the overriding principle of the 2002 Manual that a fair, accurate and uniform "bottom-line" assessment of property is the goal of the Assessor. Regardless of the determination of any other subjective or objective elements in an assessment, the aspect of the assessment subject to appeal is whether the assessment comports with the definition of market value in use.

[LEAVE IN FIRST PARAGRAPH ENDING ON PAGE FIVE – AS FOLLOWS] Fee appraisals of the a subject property, or comparable sales approaches that estimate the

market value of improvements may be considered in determining true tax value if they are based on the market value in use standard and use market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. [LEAVE IN REMAINDER OF FIRST PARAGRAPH, EXCEPT FOR LAST LINE THEREOF. Also, respectfully suggest that you retain so much of the last paragraph on page 5 that emphasizes that properties be compared to the market data, not their own value. This component emphasizes that you don't reward bad management – i.e., expense ratios and vacancies that exceed the market points to management issues as opposed to a true value issue.]

ADD AFTER BOTTOM OF PAGE FIVE:

For the 2011 Manual, certain clarifications regarding obsolescence and market value-in-use are appropriate. A typical issue in mass valuation and in appeals under both the old, cost-based system and under the market value-in-use system is whether additional depreciation, typically labeled "obsolescence," is to be applied in the valuation of a property. In a long line of cases under the old cost-based system, the Tax Court applied market value principles and laid out a two-pronged requirement for demonstrating obsolescence. First, the taxpayer or assessor must identify the causes of the obsolescence, and, second, it must quantify the amount of obsolescence to be applied. See, e.g., Lacy Diversified Indus., Ltd. v. Dep't of Local Gov't Fin., 799 N.E.2d 1215, 1223 (Ind. Tax Ct.2003). Under each of these prongs, however, the Tax Court required there to be a connection to an actual loss in property value. In other words, the Court required a demonstration that there were factors causing an actual loss of value to the property. In doing so, the Tax Court further declared:

> ***. . . [W]hen identifying causes of obsolescence, a taxpayer must provide probative evidence that identifies the existence of specific factors that are causing obsolescence in its improvement. In other words, the taxpayer must show how these factors are causing an actual loss of value to its property. In the commercial context, this loss of value usually means a decrease in the property's income-generating ability.***

Hometowne Associates, L.P. v. Maley 839 N.E.2d 269, 273 -74 (Ind.Tax,2005) citing Miller Structures, Inc. v. State Bd. of Tax Comm'rs, 748 N.E.2d 943, 954 (Ind. Tax Ct.2001) (emphasis added.)

Under market value in use, these same principles apply in the application of obsolescence adjustments to real property. Accordingly, before Assessors apply additional depreciation or obsolescence adjustments to real property, they must identify or determine that there are specific factors that are causing obsolescence in improvement and that these factors are causing an actual loss of value to the

property. In the commercial context, this loss of value usually means a decrease in the property's income-generating ability.

The General Reassessment will have an assessment date of March 1, 2011. The valuation date for real property for that reassessment shall be as of July 1, 2010. Assessors shall use sales of properties occurring between July 1, 2009, and December 31, 2010, in performing sales ratio studies for the March 1, 2011, assessment date. Cost data from the second quarter of 2010 shall be used in estimating costs.

In the prior reassessment in 2002, there was a gap of more than three years in the reassessment date and the valuation date. Similarly, under the Department's annual adjustment rule, a gap of more than one year between the valuation date and the assessment date occurred.

As a practical matter, these gaps raise thorny issues that have likely caused inequities in the valuation of properties that are appealed versus those that are not, and some confusion in the case law addressing these appeals. It is difficult for an appraiser or assessor to estimate the value of a property that has changed since the valuation date.

On the other hand, making the assessment date and the valuation date the same raises additional problems. Cost data is available only after the fact, sometimes as long as three to four months after the fact. So costs for March 1, 2011, the date on or before which the reassessment "shall be completed," IC 6-1.1-4-4(b)(1), may not be available until several months after that date. Moreover, sales ratio studies and equalization are to be complete by June 1, 2011, and rolled to the auditor by July 1, 2011. Placing the assessment date and valuation date as the same raises the specter of another series of delays and missed deadlines in this reassessment.

Placing the valuation date at July 1, 2010, moves the date closer to the reassessment date, but allows assessors sufficient time to develop costs and analyze ratio studies.

In order to clarify the meaning of the valuation date, the physical condition of the property and the economic circumstances in effect as of March 1, 2011, as they relate to the value of real property shall be taken into account in the valuation of real property. Any trending of values to that date in any ratio study or in any appeal shall be based upon changes in the value of real property and methodologies applicable to annual adjustments of real property, not on the consumer price index or any other adjustment factor that is not specifically tied to the value of real property. See, 20 IAC 21-5-2.

[THE FOLLOWING OBSERVATIONS ARE ALSO USEFUL CLARIFICATIONS REGARDING MARKET VALUE IN USE CONCEPTS THAT MAY BE INCORPORATED

INTO THE MANUAL. THESE COMMENTS WERE GATHERED FROM TECHNICAL ADVISERS IN THE FIELD WHO HAVE SPENT SEVERAL YEARS WORKING DIRECTLY WITH COUNTIES ON MARKET VALUE IN USE REASSESSMENT, TRENDING, AND VALUATION ISSUES.]

Special purpose property means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. Special-purpose properties often have very different property wealth estimates under market value-in--use as opposed to market value-in-exchange, or so-called "most probable price" definitions. Certain structures, while in use, generate great value to the owner. Examples might include utility generating stations, steel mills and refineries. Vacant, unused special purpose structure might have little or no market value, indeed, perhaps only a net land value. However, use value yields a substantially different estimate of property wealth. Further, from a use value perspective, the environmental contamination that might exist at a special purpose property would have no impact on the use value of the property, since the prior use, current use and future use of the real estate are similar. The environmental damage to the land might only be recognized if and when the property were re-developed for a different use, leading to a different estimate of use value. Use value may be estimated using a variety of techniques, including but not limited to: cost less depreciation, sales of similar facilities while in use for the intended purpose of the structure to a similar user, sales of similar entities/structures valued on an output basis, net present value of benefits from the continued use of the present site, etc.

As noted previously, most types of fair market value data or valuation methods may be used to calculate True Tax Values, so long as the use value of property is the final outcome. Fee appraisals of the subject property, or comparable sales approaches, that estimate the market value of improvements may be considered in determining true tax value if they are based on the value-in-use standard and utilize market information that is relevant to the subject property under the assumption that a potential purchaser would continue the existing use of the subject property. Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts.

There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual. Such evidence may include actual construction costs, sales information

regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles. The validity of the assessment shall be evaluated on the basis of **all** relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether it reflects the property's true tax value as defined in this manual.

Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value. The county assessor shall utilize assessment studies, as provided in 50 IAC 14 and elsewhere, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, including the appropriate strata, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Reference: Standard on Ratio Studies, International Association of Assessing Officers, August 2007.

Concept

The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method, or combination thereof, to arrive at that value. The important considerations in choosing a

mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.

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Introduction

~~A general reassessment of all real property within the state is required as of March 1, 2002.~~ The next general reassessment is statutorily required for March 1, 2006. This assessment manual contains the rules for assessing real property located in Indiana for the March 1, 2002, through March 1, 2005, ~~assessment~~ dates. It includes a number of changes from prior ~~reassessment manuals issued by the State Board of Tax Commissioners.~~

See submitted suggested change

The foundations upon which this assessment manual is built are established by the Indiana Constitution and the statutes of the Indiana General Assembly. Article X, Section 1 of the Indiana Constitution requires:

> a system of assessment and taxation characterized by uniformity, equality and just valuation based on property wealth, but the Clause does not require absolute and precise exactitude as to the uniformity and equality of each individual assessment.[1]

IC 6-1.1-31-6(c) and 6-1.1-31-7(d) further define True Tax Value: "True tax value does not mean fair market value." It is within this structure, and that required by the courts, that True Tax Value, as expressed in this manual, seeks to operate. IC 6-1.1-31-6(c) goes on to state that: "True tax value is the value determined under the rules of the State Board of Tax Commissioners." Given that the courts and statutes do not fully define true tax value, it is incumbent upon the State Board of Tax Commissioners to develop a definition that satisfies both statutory and judicial requirements by providing a definition that measures property wealth, but is not fair market value.

True tax value, therefore, is defined as:

> The market value-in-use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property, ~~less that portion of use value representing subsistence housing for its owner.~~

See suggested changes

It is this definition, therefore, that sets the standard upon which assessments may be judged. Although this assessment manual provides general rules for assessing property, situations may arise that are not explained or that result in assessments that may be inconsistent with this definition. In those cases the assessor shall be expected to adjust the assessment to comply with this definition and may ask the State Board to consider additional factors, pursuant to IC 6-1.1-31-5, to accomplish this adjustment.

See suggested change

~~True tax value may be thought of as the ask price of property by its owner, because this value~~ more clearly represents the utility obtained from the property, and the ask price represents how much utility must be replaced to induce the owner to abandon the property. In markets in which sales are not representative of utilities, either because the utility derived is higher than indicated sale prices, or in markets where owners are motivated by non-market factors such as the maintenance of a farming lifestyle even in the face of a higher use value for some other purpose, true tax value will not equal value in exchange. In markets where there are regular exchanges, so that ask and offer prices converge, true tax value will equal value in exchange,

Attachment A

[1] *State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034, 1040 (Ind. 1998).

except for owner occupied housing units, where true tax value will be equal to the value in exchange less the shelter allowance.

Not essential: include shelter allowance concepts

To satisfy the requirements imposed by the courts and the legislature, True Tax Value uses fair market value data of property wealth, but derives values that are not based strictly on fair market value. Instead, True Tax Value gives recognition to two principles of the theory of wealth and value that fair market value does not adequately capture: (1) the concept of value-in-use; and (2) the recognition that "wealth" at its core is not an absolute, but rather to some degree, a comparative term.

Based on the decisions provided by recent court rulings, the basis for True Tax Value outlined in this manual is value-in-use as opposed to value-in-exchange. This concept incorporates objectively verifiable data leading to a determination of property wealth. Property wealth under a value-in-use premise may or may not be the same as market value depending on the specific characteristics of the property. The following definition provides guidance for determining the True Tax Value under a value-in-use approach:

Leave in

Use Value: *The value a specific property has for a specific use.*[2]

Traditionally, the appraisal profession has used three approaches, or three methods, in determining the value of real property. The first approach, known as the *cost approach*, estimates the value of the land as if vacant and then adds the depreciated cost new of the improvements to arrive at a total estimate of value. The second approach, known as the *sales comparison approach*, estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market. The third approach, known as the *income approach*, is used for income producing properties that are typically rented. It converts an estimate of income, or rent, the property is expected to produce into value through a mathematical process known as capitalization.

All three of these approaches, when properly processed, should produce approximately the same estimate of value. Fee appraisers use all three approaches when appraising individual properties. However, assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment and often times do not have the data or time to apply all three approaches to each property. Therefore, the cost approach has historically been used in mass appraisal by assessing officials since data is available to apply it to all properties within a jurisdiction. The cost approach also lends itself to mass appraisal because it is easily adapted to computer systems.

Replacement cost is preferred as opposed to reproduction cost because replacement cost estimates the cost of a physical structure with similar utility. This estimate of cost should be closely aligned with value-in-use.

Leave in

Property wealth estimated by value-in-use often approximates value-in-exchange in instances where property types are frequently exchanged and used by both buyer and seller for the same purpose. A good example of this outcome is a small neighborhood retail center that is well occupied and maintained. There are two obvious instances where property wealth under value-in-use will be different from value-in-exchange. This first is for residential properties where the owner cannot freely transfer 100 percent of the sale price to some other asset type, but rather must keep at least a minimal amount to be used to purchase alternative shelter. In this sense,

[2] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383. (1993)

~~the minimal amount required to provide a basic level of shelter is not a form of property wealth but rather is a minimal amount needed for subsistence and reflects a lack of disposability. The second instance is~~ for special-purpose industrial properties where value-in-exchange occurs only infrequently and under special circumstances.

~~In the first instance, shelter does not share the characteristics of disposability that are exhibited~~ in other forms of property wealth such as business and industrial property, agricultural land, or residential property above the subsistence level. These other ~~types of~~ property wealth can be disposed of in return for equivalent amounts of other ~~asset~~ types while continuing to meet the person's basic needs. ~~However,~~ a ~~person~~ who sells a residence must reinvest at least the subsistence level of ~~shelter into~~ another residence. Therefore, the value-in-use for the most basic ~~forms of~~ shelter does not represent property wealth and must be deducted from the True ~~Tax Value.~~

~~Subsistence shelter also illustrates the second way in which wealth departs somewhat from~~ value – because wealth is a comparative term that ~~expresses abundance.~~ Subsistence shelter is certainly not abundance. ~~Therefore,~~ it is not wealth because it represents something ~~everyone has (or at least should have in modern society)~~.

~~In the second instance,~~ ~~special-purpose properties often have very different property wealth~~ estimates under a value-in-use scenario as opposed to value-in-exchange ~~due~~ to the motivations of the parties involved. This difference can be ~~expressed~~ as the difference between the bid and ask price for a special-purpose ~~asset. The~~ bid price is what a buyer is willing to pay to purchase an asset, the ~~ask price~~ is what the seller is willing to take in exchange for an asset. Typically, ~~the bid~~ price will initially be lower than the ask price, some negotiation will occur, and ~~when the two are equal an exchange will take place.~~

~~In assessment, we are estimating how this negotiation will be resolved as of January 1, 1999.~~ March 1, 2011
For property types that are frequently traded, the bid and ask price ~~are likely to be~~ fairly similar. For properties that are infrequently exchanged, ~~or that~~ are only exchanged under extraordinary circumstances, this ~~difference~~ between the bid and ask price is likely to be wider and more ~~difficult to reconcile~~.

~~A seller of a special-purpose industrial property would accept nothing less than a price equal to~~ the utility being gained from the property. For properties currently in use, this amount would be termed the value-in-use ~~(i.e. the ask price)~~. A buyer of a special-purpose property would initially bid no more than necessary to motivate the seller. A buyer would ~~likely~~ start with a low bid such as the liquidation value of the property. Assuming that the ~~buyer~~ intends to use the property for its current use, the buyer will likely adjust the ~~bid price~~ until a transaction is completed. Since the seller has no motivation to sell at ~~anything~~ less than the value-in-use for a special-purpose property, the ask price ~~becomes~~ the benchmark for a likely transaction under a value-in-use scenario. In the ~~case in~~ which the seller adjusts its opening price and actually consummates a transaction ~~with~~ the buyer at an agreed price, the bid and ask prices coincide and reflect the ~~value in use~~ of the property.

~~As noted previously, some types of fair market value data or valuation methods may be used to~~ calculate True Tax Values, but these data and methods may be used ~~only as described~~ in these rules. In general, such methods will be applicable ~~only if~~ they rely on data that was readily available to the assessor at ~~the time the~~ assessment was made and they represent a reliable indicator of value ~~based~~ on the value-in-use premise or except as the Board may provide in its ~~equalization rule. Fee appraisals of the subject property, or~~ comparable sales approaches, that

See comments changes for Page 5

~~estimate the market value of improvements may be considered in determining true tax value if~~ they are based on the value-in-use standard and utilize ~~market information~~ that is relevant to the subject property ~~under the assumption~~ that a potential purchaser would continue the existing ~~use of the subject property.~~ Whether a comparable sales approach or an income approach is a reliable indicator of the true tax value of commercial and industrial property under the value-in-use standard must be determined on a case-by-case basis. If the property is a single-use or specialty property and there is no market for the property, the comparable sales approach may be inapplicable depending on the facts. Single-use or specialty property for this purpose means property which is so uniquely designed and adapted for the business conducted upon it or the use made of it and which cannot be converted to other uses without the expenditure of significant sums of money. When others could feasibly use the property for the same general commercial or industrial purpose, e.g. light manufacturing, general retail, or other use type defined in this manual, comparable sales data may be employed to determine true tax value if the data is reliable, the sampled property sales are reasonably comparable based on accepted appraisal standards, ~~and the data was reasonably available to the assessor at the time the assessment was made.~~

Omit

~~For the purposes of this provision, "readily available" means information reasonably imputed to~~ be information that the assessor should know is relative to the assessment, that the assessor is aware exists, and could have been accessed with reasonable ease or that the assessor could have availed himself/herself of with reasonable ease. Likewise, any information held, possessed or controlled by a taxpayer that is not furnished to the assessor prior to the assessment date, or otherwise made available and known to the assessor, cannot be considered readily available to the assessor. Information in the hands of a taxpayer is "readily available" to the assessor, however, if the taxpayer offers to make the information available to the assessor and describes the general grounds for its relevance to the assessment before the assessment date, even if the information itself is not provided to the assessor. If the underlying data are disclosed prior to the assessment date, they may then be used to develop appraisal reports or other opinions of value. For example, if a taxpayer discloses the existence of a plant bottleneck to the assessor prior to the assessment date and indicates that the taxpayer's records may support the application of functional obsolescence to recognize the effect such bottleneck may have on value, the taxpayer would have satisfied the "readily available" standard even if the taxpayer waited until after the assessment date to have a full appraisal prepared ~~considering this effect.~~

Consider leaving in salient points

~~This methodology meets the court's recent ruling that each taxpayer does not have the right to~~ "absolute and precise exactitude as to the uniformity and equality of each individual assessment...nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax ~~appeals~~"[3]. The analysis relies in part on neighborhood and industry-wide data in adjusting for depreciation and in doing so incorporates objective and verifiable data. Appeal of assessments must operate within the rules and utilize data in the same manner as provided in this manual. In general, this requires that challenges to assessments be proven with ~~aggregate~~ data, rather than individual evidence of property wealth. Since assessments are calculated using aggregate data, it is not permissible to use individual data without first establishing its comparability or lack thereof to the aggregate data. ~~By requiring taxpayers to make any internal data "readily available" assessors are given the opportunity to establish this comparability.~~

[3] *State Board of Tax Commissioners v. Town of St. John*, 702 N.E.2d 1034 (Ind. 1998).

There shall be a presumption that the value determined according to rules prescribed in this manual is the true tax value of the subject property. However, the taxpayer shall be permitted to offer evidence relevant to the fair market value-in-use of the property to rebut such presumption and to establish the actual true tax value of the property as long as such information is consistent with the definition of true tax value provided in this manual ~~and was readily available to the assessor at the time the assessment was made~~. Such evidence may include actual construction costs, sales information regarding the subject or comparable properties, appraisals that are relevant to the market value-in-use of the property, and any other information compiled in accordance with generally accepted appraisal principles.

Further definitions that help to explain the concepts explained in this introduction include value and property wealth:

Value: Use value, the value a specific property has for a specific use.

Property Wealth: The abundance of economic utility realized from property rights.

Finally, as stated previously, the most important factor in assuring uniformity and equity of assessments is the application of a standard definition of value and/or property wealth. As important as the specific rules may be, it is critical that assessors test and adjust their assessments to meet the standard set out previously in the definition of true tax value. The county assessor shall utilize assessment studies, as provided in a separate rule, as a means to attain a just and equal basis of assessment among taxpayers in the county under IC 6-1.1-13-6. Assessment studies seek to measure both the level of assessment and level of uniformity within assessing jurisdictions and property classes.

Level of assessment refers to the extent to which property assessments approximate legally mandated assessed valuation standards. By comparing the certified assessed values of sample parcels within townships with values based on the valuation standards, assessment ratios can be calculated for each township in a county. These ratios will serve as a basis for level of assessment measures.

Level of uniformity refers to the degree to which property classes are equally assessed within assessing jurisdictions. Based on assessment ratio data for each township in a county, various statistical measures, including coefficient of dispersion, can be applied to determine the level of uniformity within assessing jurisdictions.

Data utilized to measure level of assessment and levels of uniformity are to be used by county assessors to equalize the assessed value of property within the county. If equalization is justified, statistical analysis will provide information as to the degree of adjustments required to bring local assessed values into compliance with legally mandated standards.

Assessment studies generally involve five basic steps: (1) definition of purpose and objectives, (2) collection and preparation of market data, (3) matching appraisal and market data, for consistency, (4) statistical analysis, and (5) evaluation and use of results.

Concept

The underlying concept of this manual is to provide a definition of "True Tax Value" and then allow local assessing officials to select any acceptable mass appraisal method to arrive at that value. The important considerations in choosing a mass appraisal method will be the ease of administration and the accuracy and uniformity of the assessments produced. This allows the assessing official to focus more on the results of the reassessment and less on the process used to accomplish it.

Wolter, Catherine

From: Rushenberg, Tim
Sent: Tuesday, June 10, 2008 10:16 AM
To: Wolter, Catherine
Subject: FW: Property classes

For the comment file on the real property rule.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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From: Judy Sharp [mailto:jsharp@co.monroe.in.us]
Sent: Monday, June 09, 2008 2:24 PM
To: Rushenberg, Tim
Subject: FW: Property classes

FYI, here are the main property classes that we used. It really helped with reports.

Judy

From: Leeanna Ratliff
Sent: Monday, June 09, 2008 12:43 PM
To: Judy Sharp
Subject: Property classes

Below is the lest of property classes that we created to further identify property beyond what the state has previously established.

141 ag parcel - real property mobile home on ag parcel
149 ag parcel - personal property mobile home on ag parcel
198 ag parcel - building on leased land
498 com parcel - building on leased land
556 res parcel - residentail condo dwelling (row type condos - we use the 550 for the apartment sytle condos)
557 common area parcel
590 res parcel - personal property mobile home on platted property

591 res parcel - personal property mobile home on unplatted property
598 res parcel - building on leased land

Indiana Association *of* Cities and Towns

Your Partner in Good Government

To: Cheryl Musgrave, DLGF Commissioner

From: Matt Greller, Executive Director, IACT

Date: June 9, 2008

Subj: Comments on Proposed DLGF Rule

The Department of Local Government Finance (DLGF) has proposed an administrative rule to revise Indiana's assessment manual. The change to the manual would move the assessment process from a "market value in use" standard to a "market value in exchange" standard.

The Indiana Association of Cities and Towns (IACT) urges the DLGF to keep the rule as is until further impact studies can be completed and the effects to local governments are known. With the passage of House Enrolled Act 1001 this year, cities and towns are already faced with monumental changes in the property tax system. Most of the impacts on local government that will be a result of HEA 1001 have yet to be revealed. We believe it would be imprudent for the DLGF to make such a substantive change to the assessing process, which may potentially shift the tax burdens between classes of taxpayers, until more analysis can be conducted by the State.

200 S. Meridian Street, Suite 340 Indianapolis IN 46225 Phone: 317.237.6200 Fax: 317.237.6206 www.citiesandtowns.org

Wolter, Catherine

From: Rushenberg, Tim
Sent: Tuesday, June 10, 2008 2:56 PM
To: Wolter, Catherine
Subject: FW: Please Review the Attached Document: 08-54 . Market Value with notes.pdf

Attachments: 08-54 . Market Value with notes.pdf

08-54 . Market Value with note...

More comments for the file on the rule.

Very Respectfully,

Timothy J. Rushenberg
General Counsel
Indiana Department of Local Government Finance

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-----Original Message-----
From: Samuel, Tony
Sent: Tuesday, June 10, 2008 1:42 PM
To: Rushenberg, Tim
Subject: FW: Please Review the Attached Document: 08-54 . Market Value with notes.pdf

-----Original Message-----
From: Milo Smith [mailto:milo.e.smith@sbcglobal.net]
Sent: Tuesday, June 10, 2008 12:05 PM
To: Samuel, Tony
Subject: Please Review the Attached Document: 08-54 . Market Value with notes.pdf

Please review and comment on the attached document: 08-54 . Market Value with notes.pdf. Adobe Acrobat 6.0 or later is required to participate in this review.

1. First, open the attachment.
---
2. Then, make your comments directly on the document by using the tools on the Commenting toolbar, and/or the tools available under the Comment & Markup button.
---
3. After you have finished making your comments, click the "Send Comments" button on the Commenting toolbar to email your comments to the requestor.

TITLE 50 DEPARTMENT OF LOCAL GOVERNMENT FINANCE

Proposed Rule
LSA Document #08-54

DIGEST

Adds 50 IAC 2.4 to incorporate a manual that establishes rules and guidelines for the assessment of real property. Repeals 50 IAC 2.3. Partially effective 30 days after filing with the Publisher and partially effective March 2, 2010.

IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses

50 IAC 2.3; 50 IAC 2.4

SECTION 1. 50 IAC 2.4 IS ADDED TO READ AS FOLLOWS:

ARTICLE 2.4. REAL PROPERTY ASSESSMENT MANUAL

Rule 1. 2011 Real Property Assessment Manual

50 IAC 2.4-1-1 Applicability; provisions; procedures

Authority: IC 4-22-2-21; IC 6-1.1-4-26; IC 6-1.1-31; IC 6-1.1-35-1
Affected: IC 5-3-1; IC 6-1.1-4; IC 6-1.1-15; IC 6-1.1-31-5

Sec. 1. (a) This article applies to the assessment of all real property under IC 6-1.1-4.

(b) All real property assessed after February 28, 2011, must be assessed in accordance with the 2011 Real Property Assessment Manual and the Real Property Assessment Guidelines for 2011, incorporated by reference under section 2 of this rule.

(c) The purpose of this rule is to accurately determine "true tax value" as defined in the 2011 Real Property Assessment Manual and the Real Property Assessment Guidelines for 2011, not to mandate that any specific assessment method be followed. The intent of the department of local government finance is that an assessment determined by an assessing official in accordance with this rule, and the Manual and Guidelines incorporated herein by reference, shall be presumed to be correct. Any evidence relevant to the true tax value of the property as of the assessment date may be presented to rebut the presumption of correctness of the assessment. Such evidence may include an appraisal prepared in accordance with generally recognized appraisal standards; however, there is no requirement that an appraisal be presented either to support or to rebut an assessment. Instead, the validity of the assessment shall be evaluated on the basis of all relevant evidence presented. Whether an assessment is correct shall be determined on the basis of whether, in light of the relevant evidence, it reflects the property's true tax value.

(d) If the county assessor elects, under IC 6-1.1-31-5, to consider additional factors not provided for in this rule or the Manual and Guidelines incorporated herein by reference, the county assessor shall submit a written request for approval of such factors by the department of local government finance at least sixty (60) days before the assessments are made and not later than January 1, 2011. To be approved, the additional factors must assist in the effort to establish true tax value.

(Department of Local Government Finance; 50 IAC 2.4-1-1)

50 IAC 2.4-1-2 Incorporation by reference

Authority: IC 4-22-2-21; IC 6-1.1-4-26; IC 6-1.1-31; IC 6-1.1-35-1
Affected: IC 6-1.1

Sec. 2. (a) As used in this article, "2011 Real Property Assessment Manual" refers to the Real Property Assessment Manual published by the department of local government finance.

(b) As used in this article, the "Real Property Assessment Guidelines for 2011" refers to the Real Property Assessment Guidelines published by the department of local government finance.

(c) The 2011 Real Property Assessment Manual and the Real Property Assessment Guidelines for 2011 are incorporated by reference under the authority of IC 4-22-2-21.

(Department of Local Government Finance; 50 IAC 2.4-1-2)

SECTION 2. 50 IAC 2.3 IS REPEALED.

SECTION 3. SECTION 2 of this document takes effect March 2, 2010.

Notice of Public Hearing

Posted: 05/07/2008 by Legislative Services Agency
An html version of this document.